The role of collibration in addressing agency conflicts: Remuneration governance in Australia

Zahid Riaz

MPhil, MBA, BBA (Hons.)

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ORIGINALITY STATEMENT

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Abstract

This study explores an alternative approach to regulation for addressing corporate governance problems relating to director and executive remuneration disclosure that are often associated with corporate collapses worldwide. Drawing on the concept of collibration, an approach to managing tensions between opposing forces in a social arena through government intervention, the study explores its application to the development of a unique regulatory framework, comprised of a mix of state and self regulation for corporate governance in Australia. Thereafter the study examines the impact of mixed regulation on disclosure level of director and executive remuneration in Australian firms. The results of econometric analyses show that remuneration disclosure levels are significantly higher after the establishment of a mixed regulatory regime. After controlling for firm specific characteristics, improvement in the level of remuneration disclosure is found to be primarily driven by the establishment of remuneration committees, chairman and CEO role separation, presence of CEO on remuneration committee, number of female directors on remuneration committee and the presence of remuneration consultant – thus highlighting the key aspects of mixed regulatory initiatives influencing disclosure levels in Australia.

In addition, this research examines the distinctive case of MNC-subsidiaries in Australia, by uncovering how multi-nationality can affect disclosure level of director and executive remuneration. The results suggest that, other things being equal, MNCs are less responsive to increased disclosure requirements than their local counterparts in Australia unless they have substantial interactions with Australian product markets.

The study lends support to the growing body of literature which advocates collibration as a contemporary approach to reduce agency problems through government intervention. The findings demonstrate the effectiveness of collibration in facilitating the implementation of recommended self-regulatory practices to improve remuneration disclosure. The analysis

also demonstrates that collibration can act as an effective tool to develop a regulatory framework that aligns state regulation designed to protect shareholder interests with market oriented self-regulation.

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Chapter 1: Introduction

1.1 Introduction

The first decade of the 21st century began with a series of corporate collapses in developed economies and ended with the global financial crisis – culminating in the worst recession since the great depression of the 1930s (Banks et al., 2010, Hill et al., 2010). Due to its association with corporate collapses and market failures, director and executive remuneration became front page news. It was even argued to be one of the prime causes of the series of corporate and financial collapses (Hill, 2006, Hill and Yablon, 2002, Hill et al., 2010, Miller, 2004). Colossal financial debacles shook public confidence in the legitimacy and appropriateness of existing mechanisms of corporate governance. The incidence of formidable agency problems contributing to financial debacles raised fundamental questions about the adequacy of existing (market-based) governance arrangements to facilitate good corporate governance in regard to director and executive remuneration (Chapple and Christensen, 2005, Kirkbride and Letza, 2004, Sheehan, 2009).

In Australia, 2001 was declared as the year of corporate collapses. The most shocking of a series of collapses were the fall of HIH Insurance and One Tel. Researchers attributed these Australian corporate scandals to poor corporate governance mechanisms and to the failure of market-based regulation (Clarke, 2004b, du Plessis et al., 2005, Hill, 2005). The total damage of all these corporate failures was more than A$13 billion and at least 20,000 jobs were lost in Australia (Kohler, 2001). Additionally, the investigative findings by the Royal Commission on HIH Insurance, which is the biggest collapse in the history of Australia, revealed that this corporate scandal was caused by expensive business acquisitions and excessive corporate lavishness, based on the fallacy that there was sufficient cash in the business (Bailey, 2003). In particular, remuneration of executives was considered to be one of the important reasons behind the collapse of HIH Insurance. This was even evident from the

disbursement of massive performance based cash bonuses to the joint chief executive officers (CEOs) of One Tel just before its collapse (Hill, 2006, p.65). The Australian public also became inflamed over the pay rise of the CEO of the Adelaide Bank who was awarded an increase of about 300 percent from $272,000 to $1,090,000 against the 20 percent increase of share value with no increase in dividend payouts (Lekakis, 2001). As well, there was much publicity about payouts to outgoing and failed CEOs in Australia such as the CEOs of National Australia Bank and James Hardie Group (Bolt, 2004, Charles, 2004). These cash bonuses were tied with market capitalisation to reward improvement in firm performance or increase in firm value.

As evident from this discussion, the increased focus on pay-for-performance models driven by market-based governance mechanisms resulted in increased levels of agency conflicts, culminating in market failures. Indeed, the adoption of pay-for-performance models had major unintended effects during the latter part of the twentieth century (Cheffins, 2003). Agency theorists argue that performance oriented remuneration packages or pay-for-performance models can align interests of the agents (managers) with principals (shareholders). Researchers (Coffee, 2004, Gordon, 2002, Hill, 2005, Hill, 2006, Bebchuk and Fried, 2004) argue that the pay-for-performance model does not necessarily relate to actual corporate performance and has itself resulted in an agency problem. Empirical research on top management remuneration spanning seven decades shows a low level of correlation generally between pay and performance (Barkema and Gomez-Mejia, 1998). Also, Coffee (2004, pp.297-298) and Kahan and Rock (2010) observed that during the 1990s, the average job-occupancy of CEOs in US corporations was reduced from three to four years. Financial manipulations to increase the value of their stock options, and each short tenure ending in the ‘golden parachute or golden goodbye’ phenomenon often characterised this period (Bebchuk and Fried, 2003, p.74).

Revelations of such practices shook public confidence in market-based systems of corporate governance. In addition, corporate collapses and market failures of the last decade uncovered the inadequacies and risks of an over-reliance on such mechanisms. Therefore, governments around the world, including Australia, came under tremendous pressure to intervene to ensure greater accountability and transparency, particularly in matters relating to director and executive remuneration (Chapple and Christensen, 2005, Kirkbride and Letza, 2004, Sheehan, 2009).

Against this murky backdrop, the critical question was: what is the most effective means of regulation to tackle governance problems in a dynamic context of globalization (Levi-Faur, 2005), (Kirkbride and Letza, 2003, Kirkbride and Letza, 2004, Kirkbride et al., 2005). Some empirical studies propounded that governance through self-regulatory codes was best, as it is likely to contribute to greater shareholder value (Desmond, 2000). Financial theorists asserted that any interference with current market-based regulatory mechanisms will have a distorting effect (Hart, 1995, Kirkbride and Letza, 2004, McSweeney, 2009, Sheehan, 2009).

However, to what extent can society rely on self-regulation? Should corporate entities be better governed through other means, for example, through statute (Kirkbride and Letza 2004)? Researchers are in a quandary as to what approach is to be adopted in developing a regulatory framework that brings about changes in corporate governance. Could state regulation be a reinforcing mechanism to bring about a shift from a market-based to a behaviour-based mode of corporate governance? To address these questions of theoretical and empirical significance in today's globalised world, this research focuses specifically on the Australian case of corporate governance.

The Australian government responded to address issues of corporate governance by enacting both state- and self-regulatory reforms, which demanded detailed disclosure of

director and executive remuneration. The foremost state regulatory reform was the ninth instalment of the Corporate Law and Economic Reform Program or CLERP 9 by the Howard government in 2002-2004, with the stated aim of improving productivity and economic development (Slipper, 2004). These goals were to be met by bringing protection to investors through improvements in the level of disclosure. Therefore, the ninth instalment of CLERP was linked with corporate disclosure requirements, introduced in 2002 after several massive corporate scandals (du Plessis et al., 2005, Farrar, 2005, McConvill, 2004).

CLERP 9 was a very broad ranging Act which addressed a wide array of corporate governance issues including executive remuneration by extending the existing section 300 A of the Company Law Review (CLR) Act 1998 (du Plessis et al., 2005, p.162, McConvill, 2004, p.97). Undertaken in response to calls for curtailment of excessive executive pay in Australia, CLERP 9 aimed to strengthen the existing disclosure regime by promoting transparency, accountability and shareholder activism (Banks et al., 2010, p.130, Sheehan, 2009, p.275). With its mandate for improving the existing requirements for provision of remedial information and an annual non-binding shareholder vote, CLERP 9 involved an altering of the rules of engagement between opposing social forces to fine tune the balance in favour of shareholders. A significant departure from CLR Act 1998 was the introduction in CLERP 9 of an annual shareholder non-binding advisory vote on the executive remuneration report at the annual general meeting. In addition, shareholders were allowed a reasonable question time to discuss the remuneration report with the board (Chapple and Christensen, 2005, Sheehan, 2009).

The Australian business community criticised the proposed initiatives of CLERP 9 and called these a ‘knee jerk’ reaction of the government towards the corporate collapses of

the current decade (Alberici, 2003). Especially, the Business Council of Australia (BCA)[1] categorically argued against the disclosure of director and executive remuneration, continuous disclosure, and participation of shareholders through a non-binding vote in deciding executive remuneration – an outcome which the BCA saw as flowing from the proposed CLERP Act 2004 (BCA, 2003b).

In order to pre-empt the resistance of businesses to the proposed reforms, Australia introduced self-regulatory reforms shortly before the introduction of CLERP 9 (Robins, 2006). To facilitate the development of a formal framework for self-regulation, the Government intervened to support the Australian Securities Exchange (ASX) in leading the development of a formal framework for self-regulation with industry participation. The ASX established the Corporate Governance Council, representing 21[2] different business, investment, and shareholder associations in 2002, with the aim of creating a common platform for corporate self-regulation. The first edition of the 'Principles of Good Corporate Governance Practice and Best Practice Recommendations' provided a practical guide for listed companies, their investors, and the wider Australian community (ASX, 2008). Thus through this self-regulatory initiative, the Government facilitated the creation of an organized forum led by ASX which enabled creating discourse amongst diverse actors with conflicting

[1]According to the former president of the BCA, Hugh Morgan, the BCA member organisations collectively contribute 20 percent of the output of the Australian economy and employ more than one million Australians. Furthermore, the BCA members collectively account for one third of the exports of Australia. These facts illustrate the importance of the BCA platform with reference to the economy and trade of Australia.

[2]Association of Superannuation Funds of Australia Limited (ASFA), Australasian Investor Relations Association (AIRA), Australian Council of Superannuation Investors (ACSI), Australian Financial Markets Association (AFMA) (formerly International Banks and Securities Association of Australia), Australian Institute of Company Directors (AICD), Australian Institute of Superannuation Trustees (AIST) , Australian Securities Exchange, Australian Shareholders' Association (ASA), Business Council of Australia (BCA), Chartered Secretaries Australia (CSA), CPA Australia Ltd, Financial Services Institute of Australasia (FINSIA) (formerly the Securities Institute of Australia), Group of 100 (G100), Institute of Actuaries of Australia (IAAust), The Institute of Chartered Accountants in Australia (ICAA), Institute of Internal Auditors - Australia (IIA-Australia), Investment and Financial Services Association (IFSA), Law Council of Australia, Property Council of Australia, National Institute of Accountants (NIA) and Stockbrokers Association of Australia (SAA).

interests, to develop a practical framework for self-regulation which had acceptance both in industry and shareholder groups.

The opposition to, and severe criticisms of the enactment of state regulation (CLERP 9) by the Australian business community provides an ideal background for a thorough study of Australian business responses to disclosure requirements, focusing on the level of disclosure of director and executive remuneration. The Australian milieu provides a unique setting to examine the level of concurrence between both state and self modes of regulation. Usually, these regulatory forms reflect the diverse and often competing interests that influence the social practice of corporate governance in the era of regulatory capitalism and globalization (Kirkbride and Letza, 2003, Kirkbride and Letza, 2004, Kirkbride et al., 2005, Levi-Faur, 2005). Also, this study provides the opportunity to underline the events and processes involved in the development of a regulatory framework comprising both state regulation and self-regulation for improving remuneration disclosure and practices in Australia.

The present chapter is organised in the following order. First, section 1.2 presents the research problem, objectives and propositions. Second, the justification of the present study is provided insofar as gaps exist in the theoretical and empirical literature in section 1.3. Third, section 1.4 gives a brief overview of the methodology and relevant data sources utilised in the current research. Fourth, the definitions of key concepts of this thesis are presented in section 1.5. Fifth, section 1.6 justifies the limitations of scope of the present research. Finally, the structure of this thesis is outlined in section 1.7.

1.2 Research problem, objectives and propositions

The research question that motivates this study is: ‘what approach should be adopted to develop a regulatory framework for corporate governance that aligns state regulation designed to protect shareholder interests with market oriented self-regulation?’ This study

draws on *collibration* as an analytical lens to view the development of a mix of state regulation and self-regulation by the Australian government. The concept of collibration was first conceived by Dunsire (1993a, Dunsire, 1993b, Dunsire, 1996) and conceptualised by Kirkbride et al. in regard to corporate governance (Kirkbride and Letza, 2003, Kirkbride and Letza, 2004, Kirkbride et al., 2005). Collibration is the process of balancing and managing the social tensions between opposing forces in a social arena through government intervention. In the context of corporate governance, collibration can be used as an approach to develop a regulatory framework that reconciles tensions between opposing forces in the market – such as the principal and agent, as well as state regulation and market-based regulation. To answer the research question, the research objectives pursued in this study were:

1. To demonstrate the application of collibration and its relevant techniques to the development of a regulatory framework, comprising a mix of self-regulation and state regulation, by identifying and analysing the stages and processes of collibration that assisted the Australian government to manage conflicts of corporate governance through a detailed analysis of the historical events in the Australian context.
2. To examine the effect of this regime of mixed regulation, an outcome of collibration, on disclosure behaviour regarding director and executive remuneration in Australian companies, and to identify the key determinants of disclosure level levels before and after the establishment of such a regulatory mix.
3. To investigate the effect of a mixed regulation developed through collibration on disclosure behaviour of MNC-subsidiaries in Australia by uncovering how multi-nationality can affect disclosure level of director and executive remuneration.

Drawing on the concept of collibration, three research propositions were developed:

i) In market based economies, the government's approach to managing conflicts in corporate governance to restore investor confidence will involve collibration rather than imposition of substantive compulsory standards;

ii) Collibration would enable complementing state regulation with self-regulation, two seemingly competing mechanisms, to establish a mixed regulatory framework for corporate governance; and

iii) A mixed regulatory framework will be more effective than state based regulation alone in improving transparency and implementation of recommended practices to support corporate governance in both Australian firms and MNC-subsidiaries of Australia.

Based on a before and after research design, the empirical research examined whether the shift to mixed regulation improved disclosure level and its relationship with remuneration practices in the Australian firms between 1997 and 2006. The hypothesis tested was that a mixed regulatory framework would be more effective than state based regulation alone in implementation of recommended practices to achieve better level of remuneration disclosure. Using univariate and multivariate analyses, disclosure levels were compared to determine the efficacy of mixed regulation.

The findings demonstrate that state-regulation alone is inadequate to address remuneration governance problems and a mix of state regulation and self-regulation can improve disclosure practices. Through collibration, the Government can achieve a more socially acceptable framework for corporate governance for improving disclosure level and practices of director and executive remuneration. Collibration can act as an effective alternative tool that aligns state regulation designed to protect shareholder interests with market oriented self-regulation. Thus, a mixed regulatory regime can be more effective than a single mode for addressing agency conflicts.

1.3 Significance of the study

The incidence of widespread corporate collapses and global financial crises has called for greater transparency and better protection of investors through state regulation of corporate governance. However corporate governance, being a social activity that is influenced by diverse social actors and interests, needs a flexible approach towards its management. Thus far, apart from the pioneering work of (Kirkbride and Letza, 2003, Kirkbride and Letza, 2004, Kirkbride et al., 2005, Letza et al., 2004), little was known about the salience of collibration as a potential framework of corporate governance. As well, not much attempt has been made to theoretically frame and systematically understand the efficacy of collibration in the field of corporate governance.

This study contributes to, and enriches the sparse literature on collibration by demonstrating its application through an in-depth examination into the stages and actors of the collibratory intervention involving the balancing of tension between conflicting forces. This research demonstrates that collibration is a highly useful theoretical construct to draw on when developing a regulatory framework for corporate governance, aligning state regulation designed to protect shareholder interests with market oriented self-regulation.

A novel contribution of this study lies in the examination of the impact of mixed regulation on alleviation of agency conflicts. Thus far there has been no empirical investigation that has conceptualised and studied the effectiveness of mixed regulation over state regulation alone for addressing agency conflicts. This investigation conceptualises the key determinants of disclosure level of director and executive remuneration represented by both state and self-regulatory elements and examines the effect of these factors in the pre and post mixed regulatory period.

This is also one of the few studies that present a comprehensive examination of disclosure practices after the enactment of mixed regulation (CLERP Act 2004 and ASX

Principles 2003) in Australia. Earlier studies, for instance (Bassett et al., 2007, Clarkson et al., 2006, Coulton et al., 2001, Liu and Taylor, 2008, Nelson et al., 2010), have analysed the remuneration disclosure level before the enactment of a mixed regulatory regime. As well, the analysis of the responsiveness of MNC-subsidiaries vis-à-vis domestic firms to the increased disclosure requirements is one of the pioneering studies conducted in the Australian setting, that demonstrates how multinational enterprises can affect disclosure level of director and executive remuneration.

The empirical contribution of this study also lies in its articulation of the weaknesses of market oriented or outcome-based mechanisms to relieve agency problems, especially during corporate collapses and global financial crises (Coffee, 2004, Gordon, 2002). This study demonstrates that behaviour-oriented governance mechanisms can be calibrated to address the agency problems caused in the wake of failures of excessively outcome-oriented mechanisms in capitalist economies. It demonstrates how collibration can bring about a shift to a behaviour-based mode of corporate governance to prevent market failures.

Last but not least, for financial analysts and industry researchers, this study provides a comprehensive disclosure index which may be useful as a measurement instrument to ascertain disclosure level of director and executive remuneration.

1.4 Research methodology and data sources

Research methods are the means of collecting and analysing the empirical evidence. The selection of research methods, qualitative or quantitative, is dependent on epistemological and ontological considerations (Bryman and Bell, 2003). According to Johnson and Onwuegbuzie (2004, pp.19-20), quantitative and qualitative research methods have relative strengths and weaknesses. Qualitative methods permit the researcher to gain an in-depth understanding regarding the occurrence of any phenomenon in its local context (Johnson and Onwuegbuzie, 2004, p.20). Researchers can deploy qualitative methods for

generating a tentative but explanatory theory. On the other hand, quantitative methods provide the validation of extant theories by examining the occurrence of any phenomenon (Johnson and Onwuegbuzie, 2004, p.19). Investigations of this nature with a substantial sample size can assist generalisation of research findings. The strengths of both methods illustrate the complementarity between qualitative and quantitative research methods. Tharenou, Donohue, and Cooper (2007) contend that the distinction between qualitative and quantitative research methods is overdrawn. In order to gain a holistic picture of reality, a number of researchers suggest the deployment of both methods and propose the use of mixed research methods for the better comprehension of reality (Johnson and Onwuegbuzie, 2004, Onwuegbuzie and Teddlie, 2003). The application of both methods should be determined in relation to the aim of the study, time and available resources of research (Tharenou et al., 2007, Perry, 1998).

Social researchers who are interested in analysing archival information, newspaper stories, official speeches and documents are heavily dependent on content analysis (Weber, 1985, p.42). Content analysis is a technique which can assist for developing inferences in an objective and systematic manner by identifying specific aspects and characters of messages (Holsti, 1969, p.14). Content analysis enables the examination of texts, for example mass media, to map the trends of documentary contents (Hoyle et al., 2002, p.388). Hence this research method is used for quantifying content of texts in relation to predefined categories and this quantification takes place in a systematic and replicable manner (Berelson, 1952, Krippendorff, 1980, Stemler, 2001, Weber, 1985). For this study, content analysis is deemed appropriate as a precise research method for the systematic recording of disclosure level of director and executive remuneration through a disclosure index.

Content analysis offers a number of benefits. First and foremost, it is a very transparent and objective research method because of its easy replication (Bryman and Bell,

2003, p.206). Second, in the case of organisational studies, content analysis is considered as a relevant method of data collection since the prime goal of such research is to identify and highlight organisational values and practices which are embedded in organisational documents (Kabanoff et al., 1995, p.108). A third and very pertinent aspect of content analysis is the ease of access to the information, which under other methods can be very difficult to attain. For instance, data about the remuneration of the elite groups of society can be easily accessed from the relevant documents.

Content analysis is guided by the following six stages as identified by Hoyle, Harris and Judd (2002, pp.388-389). These stages include: 1) the selection of relevant phenomenon; 2) the selection of media that can provide the required observations; 3) the development of category systems; 4) the sampling decision according to the unit of analysis; 5) dealing with quality issues in the context of reliability and validity; and 6) the analysis of gathered data. Information that can be collected directly from company reports cannot be gained through survey research due to accessibility, time and limited resources constraints. Company reports are a major category of public documents which show mandatory and voluntary company information (O'Donovan, 2002). These documents are the regular editorial outcome of the companies which are widely read by stakeholders (Deegan and Rankin, 1996, Gray et al., 1995, Unerman, 2000). Consequently, these company documents can be suitable sources for data about the phenomenon of interest – disclosure level of director and executive remuneration. In the context of this research, the reports of company directors; annual reports; agendas of the annual general meetings; and the minutes of the annual general meetings are identified as appropriate documents from which the observations can be made. These documents are accessed from the following databases: Connect 4, DatAnalysis, and FinAnalysis.

As a backbone of content analysis, a serviceable category system is often used for systematic recording and quantification of information disclosure (Stemler, 2001). Holsti (1969) provides five general guidelines which can help in the formation of a category system. According to these guidelines, 'the categories should reflect the research purpose, be exhaustive, be mutually exclusive, independent, and be derived from a single classification principle' (Holsti, 1969, p.95). By considering these fundamentals of a category system, this research developed the category system to ascertain the disclosure levels of remuneration.

The sampling process entails drawing entities from a relevant population in such a manner that permits generalisation of the phenomenon of interest from the whole population (Pinsonneault and Kraemer, 1993, Zikmund, 1997). The most important aspect of the sampling process is the selection of an appropriate sampling-frame that is also known as the working population. A sampling frame is a representative subset of the whole population from which the sample is drawn. The sampling frame, therefore, should sufficiently represent the unit of analysis of the research (Pinsonneault and Kraemer, 1993).

The unit of analysis assists in determining the unit of observation for a research. Unit of analysis can be explained as for whom or for what purpose the research is being conducted. The sampling process demands careful thought by differentiating between the unit of analysis and the unit of observation (Babbie, 2004, p.94). Usually in case of content analysis, the unit of analysis and unit of observation are different and derive from the purpose of the research. The quality of research procedures is usually determined by the two fundamental aspects of empirical measurements – reliability and validity. The validity of a research design is to measure what it is intended to measure and reliability refers to the extent to which the same results are obtained when the same technique is repeated at different time periods (Neuman, 2003, Page and Meyer, 2000, Zikmund, 1997).

Chapter Five details the development of the category system for this research. The unit of observation consists of those company documents from which observations can be made about the unit of analysis. The unit of analysis for this research is the listed entity of the ASX, which are affected by the regulatory reforms pertaining to disclosure of director and executive remuneration. The sampling frame for this research consists of Standard and Poor's or S&P /ASX 300[3] index firms and the listed subsidiaries of foreign MNCs. The selection of the sampling frame was grounded on the basis of important features of sample frame elements and ultimately, this concern resulted in a judgement (purposive) sampling for this research. Purposive sampling is a non-probability sampling technique that allows the selection of a sample on the basis of some appropriate characteristics of sample units (Zikmund, 1997, p.428). These characteristics reflect the status of subjects for providing the most relevant information which is required for the given research problem.

The disclosure level of each company was determined through a scoring template that was used to derive a disclosure index. Disclosure indices have been widely used by researchers to determine the level of company disclosure practices (Ahmed and Courtis, 1999, Beattie et al., 2004, Donnelly and Mulcahy, 2008, Guthrie et al., 2004, Owusu-Anash and Yeoh, 2005). The formulation of disclosure index is based on general principles of content analysis of company annual reports containing relevant (remuneration) information and a category system (Beattie et al., 2004, p.214, Guthrie et al., 2004). To ascertain the level of remuneration disclosure, the category system draws on three aspects of executive remuneration: 1) general disclosure of director and executive remuneration pertaining to the requirements of section 300 (A) and the Australian Accounting Standards Board; 2) disclosure of the company's pay-for-performance model related with section 300 (A); and 3) the engagement and participation of shareholders in deciding executive remuneration during

[3]S&P/ASX 300 index firms were drawn from the target population of 2178 listed entities on the ASX. S&P/ASX 300 index firms are the largest Australian firms and represent 81 percent of the total market capitalisation.

the annual general meetings as per sections 250 (S) and 250 (SA). The identification of these three categories for analysing the disclosure level of director and executive remuneration allows the construction of research instrument – the disclosure index. The details about the disclosure index items and disclosure level ranking scores are discussed in Chapters Five and Six.

As stated earlier, the category system of this research was theoretically driven and constructed on the basis of legal requirements which are enacted through the CLERP Act 2004. In order to ensure the validity of this instrument, the category system was validated by accounting, law and management academicians. This process is called the 'face validity of research instrument' (Bryman and Bell, 2003, p.77). Jones (1996, p.130) contends that if the rate of occurrence of various categories is high then the researcher can have some confidence in the definition of categories indicating the reliability of the research instrument – the disclosure index. Internal reliability coefficient of the disclosure index was ascertained by performing the psychometric test – Cronbach's alpha.

A before and after research design was used to examine whether the shift to mixed regulation has improved disclosure level and its relationship with remuneration practices in Australian firms and MNC-subsidiaries between 1997 and 2006. Quantitative analyses measured and quantified the effect of mixed regulation on the disclosure level of director and executive remuneration pre and post mixed regulation. The gathered data was analysed through Statistical Package for Social Sciences (SPSS) version 18 in the final stage of the content analysis. SPSS has been used by social scientists since 1965 (Bryman and Bell, 2003). To serve the purpose of this research and test research hypotheses, a variety of univariate and multivariate analytical techniques were utilised (Pallant, 2005).

It is instructive to mention here that the adoption of a quantitative approach following content analysis has recognised limitations, the most prominent being the risk to be 'precisely

wrong'. To manage this limitation, a qualitative analysis of events and processes is performed in the Australian milieu to examine how the Government adopted collibration for developing a mixed regulatory regime. Qualitative analysis can provide an in-depth understanding regarding the occurrence of collibration in the Australian context. For instance, the phenomenon of collibration can be mapped by elaborating the key events related with both state and self-regulatory initiatives. In addition, a detailed investigation can be made to identify the stages and actors who are involved in the regulatory initiatives for enacting the mixed regulatory regime in Australia. The relevant historical information and data about these key actors and events can be gathered from the multiple data sources which are available in the public domain of Australia.

Thus a mixed method research strategy that relies on quantitative and qualitative research methods can endorse triangulation (Eisenhardt, 1989b, Tharenou et al., 2007). The current research adopts the mixed method research strategy to provide stronger corroboration of constructs and hypotheses for this study (Eisenhardt, 1989b, p.538). It is imperative to mention that the mixed method research methodology of the present research has its roots in the realism research paradigm. Realism searches for reality, in comparison to other research paradigms, by assuming that there is only one reality and this reality can be better understood by triangulating different perceptions (Perry et al., 1999). Realists believe that the world can be recognised by three distinct domains of reality and these are 'mechanisms, events and experiences' (Perry et al., 1999, p.18). These domains are comprehended with the help of both qualitative and quantitative research methodologies as evident from the discussion of research methods deployed in the present research (Guba and Lincoln, 2005).

Ethical matters should be considered as part of any research activity and be given due attention (Korac-Kakabadse et al., 2002). This consideration can make research stakeholders aware of their rights and obligations (Cooper and Schindler, 2006, Zikmund, 1997). The

research for the thesis addressed this issue by collecting all required data from the *publicly available* resources of the sample firms. The researcher contacted the companies or regulatory bodies for any further clarification through their general helpline or email services and communication was documented through electronic and print means.

1.5 Key definitions

Researchers do not adopt uniform definitions, thus, important and controversial terms are defined in order to establish positions in this study.

Australian domestic firms. These are firms which before 30th June 2010 did not have any operational subsidiary in an international market.

BCA member firms. This term refers to those firms which are the members of the BCA and listed on the ASX. Non-BCA member firms are those which are not members of the BCA but they are listed on the ASX. In addition, the differentiation between the BCA and non-BCA member firms is pertinent because these firms constitute the study sample.

Collibration. Collibration refers to an approach for managing tensions between opposing forces within markets and other social arena through government intervention. Drawing from co-libration which means taking part in a balancing process, collibration refers to intervention by government that involves fine tuning the balance between two or more opposing forces, in order to achieve a policy objective (Dunsire, 1993a, p.32).

Disclosure index. The thirteen disclosure index items are selected from the amended Corporations Act 2001 of Australia that includes the CLERP Act 2004.

MNC-subsidiaries. These are the subsidiaries of the foreign MNCs firms operating in Australia as on 30th June 2010.

Relative disclosure index. A measure of disclosure level of director and executive remuneration both in pre and post eras of mixed regulation. It is a ratio between the actual

disclosure of each company in its annual report and the maximum level of disclosure it can exhibit.

Self-regulation. In the Australian context, the ASX took the leading role for the development of a formal framework for self-regulation with industry participation. The ASX played a critical role by establishing the Corporate Governance Council and this council issued the first edition of the 'Principles of Good Corporate Governance Practice and Best Practice Recommendations' in 2003 (ASX, 2008). Self-regulation in this study refers to these corporate governance principles.

State regulation. This term refers to corporate laws of Australia that have mandated disclosure of director and executive remuneration in Australia from 1997 to 2004. These include Companies Regulations (Amendment) No 206 of 1987, CLR Act 1998 and CLERP Act 2004.

Non-executive directors. The Australian Securities Exchange (ASX) made a distinction between independent and non-executive directors in 2003. However, this study cannot follow this distinction because it cannot be observed in company documents for the financial years prior to 2003.

1.6 Limitations of scope and their justification

Although this research is confined to the Australian setting, the unique events and outcomes surrounding the adoption of collibration in Australia necessitates such a discrete context for the study. Second, due to resource constraints, this study only analysed the disclosure practices in a comparative-static context of three time periods 1997, 2002 and 2006 respectively. Finally, this research explored the level of the mandatory disclosure practices of listed entities only, which came under the jurisdiction of Australian law. Due to these limitations, the findings of the study should be treated with some caution insofar as to

what extent these are generalisable in other settings – an aspect further explored in section 7.6 of Chapter Seven in the thesis.

1.7 The structure of this thesis

In the foregoing sections, Chapter One introduced a brief background of executive remuneration in the wake of corporate collapses and regulatory initiatives in Australia in the last decade. It also outlined the research problem, objectives and propositions. In order to address this research problem which has both theoretical and practical significance, the use of appropriate research methodology was discussed by explicating the definitions of key concepts used in this research. The limitations of scope and their justifications were presented in section 1.6.

Chapter Two sketches the institutional context of this study, outlining the concurrent deployment of state regulation and self-regulation for disclosure of director and executive remuneration in Australia. Chapter Three reviews the literature relevant to agency relationships, and envisions different governance options for solving agency problems particularly related with director and executive remuneration. This review is guided by the research problem as identified in Chapter One. Chapter Four explores the construct of collibration as an alternative approach to regulation for addressing corporate governance problems relating to director and executive remuneration disclosure that are often associated with corporate collapses worldwide. It explores its application in the development of a regulatory framework, comprising a mix of state regulation and self-regulation, for corporate governance in Australia. It explains the stages and actors involved in such an approach. Through its application in Australia, the qualitative in-depth analysis reveals that collibration is a strategic and contemporary approach for regulating corporate governance that can improve the disclosure behaviour of Australian corporations.

Chapter Five examines the effect of a mixed regulation, an outcome of collibration, on disclosure behaviour in Australian companies, and identifies the key determinants of disclosure levels before and after the establishment of such a regulatory mix. Using univariate and multivariate analyses, disclosure levels, and the contribution of self-regulatory elements of best practice to disclosure of information, are compared before and after the introduction of mixed regulation. The results demonstrate that disclosure levels are significantly higher after the introduction of mixed regulation. After controlling for firm specific characteristics, the improvement in corporate disclosure is found to be primarily driven by the implementation of recommended self-regulatory practices.

Chapter Six examines how multi-nationality affects disclosure level of director and executive remuneration and consequently determines the effectiveness of mixed regulation on disclosure behaviour of MNC-subsidiaries in Australia. A set of hypotheses which draw on the theoretical discussion on MNCs are derived and then tested in an empirical framework. Finally, Chapter Seven explains the research findings in relation to the research problem, objectives and propositions. This last part of the thesis presents a discussion of the major implications of the study by identifying directions for future research. In particular, this chapter highlights the novel contributions of this study to the existing body of knowledge in this area. The research limitations are also discussed in the last chapter of this thesis.

Chapter 2: Research background

2.1 Introduction

The object of this chapter is to present the contextual background of the current research problem: 'what approach should be adopted to develop a regulatory framework for corporate governance that can effectively protect shareholder interests?' A major challenge currently facing the world economy is how to address some deep seated flaws in corporate governance systems of global corporations, which allegedly contributed to the corporate collapses and global financial crises in recent times. The last decade started with the collapse of Enron (the biggest corporate collapse in American history to that time) and ended with the global financial crisis culminating in the worst recession since the great depression of the 1930s. The magnitude of this crisis can be seen in the context of a double digit unemployment rate in the world's largest economy, the United States of America (USA).

The OECD states in its report that the global financial crisis indicates corporate governance failures at the level of individual firms; however it also notes that there exist major differences at the national level among the OECD member countries (OECD, 2009). As an OECD member country, such difference is evident from Australia's experience of the global financial crisis. Despite some dramatic local impacts, Australia found itself uniquely positioned to recover rapidly within a short period of time. There is a view that Australia's strong and robust corporate governance system was a rallying force in weathering the storm and a source of leadership in the OECD.

This chapter is arranged in the following order. A brief timeline of the corporate collapses and market failures of the last decade is presented in Section 2.2. The recent trends of director and executive remuneration in Australia are provided in Section 2.3. Section 2.4 presents the details of the historical events of regulatory initiatives taken by the Australian institutions with respect to director and executive remuneration. The responses of the

Australian business community to these regulatory initiatives are discussed in Section 2.5. Finally, the discussion of the current chapter is summarised in Section 2.6.

2.2 Corporate collapses – a brief time line

Sustained economic growth during the 1990s and Australia's resilience in the Asian financial crisis created a sense of complacency about corporate governance which ultimately exacted a heavy price on the business community in the form of the series of corporate collapses in the early 2000s. Indeed the year 2001 was declared as the year of corporate collapses (Kohler, 2001). During the first three months, Joseph Gutnick's Centaur Mining and HIH Insurance both collapsed. A couple of days later, the retailer Harris Scarfe went bankrupt and at the end of May 2001 it was One Tel. Again in September, when the world was reeling over the terrorist attacks in America, Ansett was put into voluntary administration. Later, the mining company Pasminco suffered huge losses due to change in foreign exchange rates. The total damage of all these failures was more than $13 billion and at least 20,000 jobs lost (Kohler, 2001). Surprisingly, these collapses were not associated with any debt problems or failures of either stock or property markets – the common factors which were quite evident in previous corporate collapses. The most shocking of all these collapses were the fall of HIH Insurance and One Tel.

Director and executive remuneration emerged as an important issue in the wake of the Australian corporate collapses in the beginning of the last decade (Hill and Yablon, 2002).With CEOs such as those of One Tel receiving multi-million dollar annual bonuses which dwarfed their already-substantial salaries, much public debate about executive remuneration was generated (Hill, 2005, Hill, 2006). Similarly, the linking of corporate collapses such as that of HIH Insurance to excessive corporate lavishness also contributed to a relatively hostile public perception (Bailey, 2003).

The Australian public also became restive over the pay rise of the CEO of the Adelaide Bank who was awarded an increase of about 300 percent from $272,000 to $1,090,000 against a 20 percent increase of share value with no increase in dividend payouts (Lekakis, 2001). As well, there was much publicity about payouts to outgoing and failed CEOs in Australia such as CEO of National Australia Bank and James Hardie Group (Bolt, 2004, Charles, 2004). In the wake of colossal corporate collapses where public firms were making losses in billions, and executives were being paid bonuses in millions, executive remuneration became a controversial issue.

A series of massive corporate collapses was also pervading the corporate environment in the US. The collapse of Enron highlighted deep seated corporate governance problems in the largest economy of the world - one that became more evident in the wake of the global financial crisis. For example, Enron which made a net income of US $975 million for the year 2000 paid its executives US $750 million under an annual bonus and performance unit plan (Gillan and Martin, 2002, p.32). Even in the aftermath of the global financial crisis the money of tax payers (so-called bail-out packages) was allegedly being utilised to pay performance-based cash bonuses to corporate and Wall Street executives (Donmoyer and Litvan, 2009).

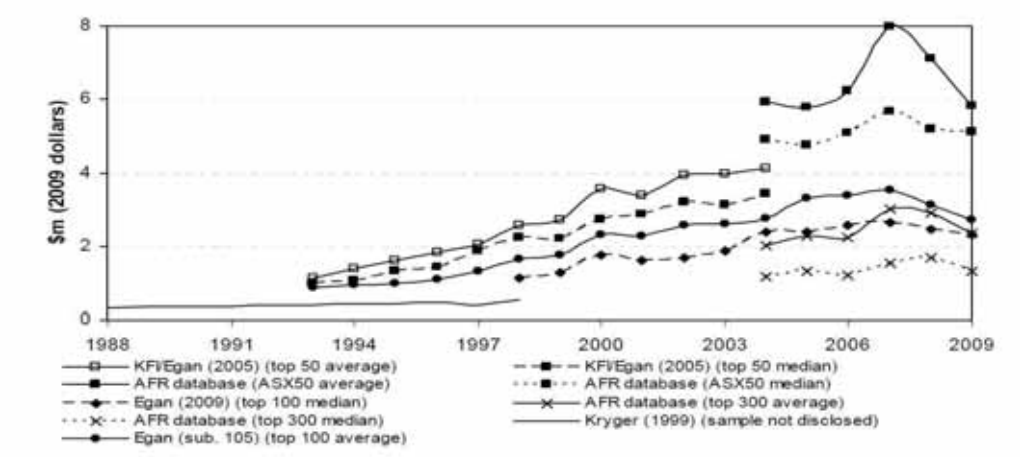
Collapses have shown a tendency to occur in waves according to Sykes (1998, p.x) who has analysed the history of Australian corporate collapses from the first bank closure in the 1820s through the recession of the 1840s, 1890s, 1920s and 1970s. He argued that corporate scandals were not the result of economic cycles as generally assumed, but these were the outcome of ‘the greed and folly of the people who run them’ (Sykes, 1998, p.xi).

2.3 Trends of executive remuneration in Australia

Executive remuneration has been identified as one of the major contributors to the corporate collapses and global financial crisis (Banks et al., 2010). In Australia, executive

remuneration grew rapidly from the early 1990s to around 1999, followed by a period of slower growth and peaking in 2007 as shown in Figure 2.1.

Figure 2.1 Australian CEO total remuneration: 1988-2009



[a] Data sources are described in appendix B. [b] Data for Egan (2009) and Egan Associates (sub. 105) include additional data for 2009 that were provided by Egan Associates (pers. comm. 3 December 2009).

Sources: ABS (*Australian National Accounts: National Income, Expenditure and Product*, Cat. no. 5206.0); Egan (2009); Egan Associates (sub. 105); Financial Review Executive Salary Database; Korn/Ferry International and Egan Associates (2005); Kryger (1999); Productivity Commission estimates.

Source: Productivity Commission Report 2010, p.49.

Figure 2.1 illustrates that from 1993 to 1999, average CEO remuneration in the Australian Securities Exchange (ASX) 100 firms rose by 13 percent. In ASX 50 firms the increase was 16 percent. However, this growth trend slowed from 2000 to 2007 with an average annual real growth rate of about 6 percent. To determine the sensitivity of executive salaries to firm performance, one could compare the growth trends of director and executive remuneration with firm growth rates during the same time period. In this respect, the Australian Productivity Commission has compared the growth in CEO remuneration with the growth rate of ASX 200 accumulation index in the following Table 2.1.

Table 2.1 Growth of chief executive remuneration versus the ASX 200 accumulation index from 1988 to 2009

Data Source	Period	CEO remuneration average annual growth rate (%)	ASX200 accumulation index average annual growth rate (%)
Kryger (1999) (undisclosed sample)	1988-98	5.1	7.5
Egan (2009) (top 100 median)	1998-2008	7.9	7.3
KFI/Egan (2005) (top 50 average)	1993-2000	17.8	12.2
KFI/Egan (2005) (top 50 median)	1993-2000	15.4	12.2
AFR Database (ASX 300 average)	2004-07	14.3	21.2
	2007-09	-11.4	-19.5
AFR Database (ASX 50 average)	2004-07	10.3	21.2
	2007-09	-14.7	-19.5

Sources: ABS (Australian national Accounts): National Income, Expenditure and Product, Cat. No. 5206.0); Economagic.com (nd); Kryger (1999); Korn/Ferry International and Egan Associates (2005); Egan (2009); Financial Review Executive Salary Database; Productivity Commission estimates.
Source: Productivity Commission Report 2010, p.74.

The ASX 200 accumulation index measures the total pre-tax return to investments in the 200 stocks that are part of the index, including both price changes (capital growth) and dividends (income). Table 2.1 illustrates that average real growth rates of various measures of executive remuneration were above the growth rate of the ASX200 accumulation index between 1993-2000 (Banks et al., 2010, p.73).

The causal relationship between pay and performance has been explored in the studies by (Doucouliagos et al., 2007, Merhebi et al., 2006, O'Neill and Iob, 1999). These studies suggest a positive relationship between firm performance and executive remuneration. Other studies (Capezio et al., 2011, Izan et al., 1998) conducted in Australia however did not find any evidence for the proposed relationship. The Productivity Commission has performed an analysis to explore the relationship between executive remuneration and firm size and performance factors represented by market capitalisation, total shareholder return, growth of net profit (after tax) and return on equity from 2003 to 2008 (Banks et al., 2010, pp.76-78). The results of this analysis are mixed and the regression analyses suggest that the three chosen indicators of corporate performance (total shareholder return, profit growth and return

on equity) are related to only some of the measures of executive remuneration as shown in Table 2.2. Banks et al. (2010, p.78) reported a positive relationship between long-term incentives and return on equity and between long-term incentives and both total shareholder return and profit growth, when the performance variables are lagged one year (Banks et al., 2010, p.78). In other cases, the statistical relationship is negative between some measures of remuneration and total shareholder return.

As evident from Table 2.2, the Productivity Commission's analysis shows that selected indicators of firm performance explain only a small part of the variation in executive remuneration. This aspect is evident from the value of the coefficient of determination (R^2) for each of the statistical models. The R^2 value suggests that variations in market capitalisation and in the chosen performance indicators explain less than half of the variation in executive remuneration and in some cases as little as 10 percent (Banks et al., 2010, p.78).

Table 2.2 Models of the relationship between CEO pay and performance 2004 to 2008

	Independent variables							
Dependent Variable	**Log (market capitalisation)**	**TSR[a]**	**TSR_{t-1}**	**NPAT $growth_t$[b]**	**NPAT $growth_{t-1}$**	**ROE_t[c]**	**ROE_{t-1}**	**R^2**
Log(base salary)	0.282***	-0.127**	0.005	-0.012	-0.004	-0.067	0.034	0.16
Log(total remuneration)	0.462***	-0.162**	0.044	-0.017*	0.008	-0.053	-0.04	0.28
Log(STI)[d]	0.572***	-0.098	0.053	-0.007	0.001	-0.219	-0.569	0.46
Log(LTI)[e]	0.557***	-0.424***	0.083**	-0.002	0.006	0.196*	0.363	0.38
STI as a proportion of base salary	0.446***	-0.024	0.032	-0.006	0.011	-0.022	-0.75	0.12
LTI as a proportion of base salary	0.188***	-0.087	0.137***	-0.005	0.014*	-0.013	0.06	0.10

* Significant at the 10 percent level. ** Significant at the 5 percent level. *** Significant at the 1 percent level. [a]Total shareholder return. [b]Growth of net profit (after tax). [c]Return on equity. [d]The natural logarithm of short-term incentives. [e]The natural logarithm of the estimated value of long term and equity-based incentives, as reported in annual reports. *Sources*: Financial Review Executive Salary Database; FinAnalysis; Productivity Commission estimates.
Adopted from: Productivity Commission Report 2010, p. 78.

In the Australian context, the growth rates of executive salaries and average earnings overall do not correspond to each other. For instance, Shields (2005, p.318) argues that the average cash salary of CEOs in the top 50 listed ASX entities has risen from a multiple of 18 times average full time earnings in 1990 to a multiple of 63 in 2005. In the wake of corporate collapses, the lack of a well-established causal link between corporate performance and rising executive salaries mounted strong pressure on the world governments including Australia to respond to this disputatious matter of corporate governance. To address the issue of director and executive remuneration, the Australian government and related institutions engaged with one another to develop an appropriate regulatory framework. The following discussion provides the institutional antecedents about regulatory initiatives in Australia in the aftermath of the collapses of the last decade.

2.4 Regulatory initiatives in Australia

Australian regulatory initiatives with regard to director and executive remuneration date back to 1938 (Hill, 1996, p.240). Until, 2003-04, regulatory initiatives consisted solely of state regulation. However, from 2004 onwards state regulation was calibrated to align with self-regulation through Corporate Governance Council of ASX in 2004. The following subsections present the details about both (state and self) regulatory initiatives and their alignment in regards to director and executive remuneration.

2.4.1 State regulation in Australia

In 1938, a state regulatory regime for a broad-brush disclosure of director and executive remuneration was introduced via section 127 of the Companies Act 1938 (Victoria). Almost half a century later, in 1986, a stringent regulatory regime was introduced to solicit firms to disclose remuneration information by identifying individual directors and the five highest paid executives (Banks et al., 2010, p.37, Hill, 1996). This disclosure regime proved to be short-lived even as it faced heavy criticism from the business organizations.

Within a year, this regime was eventually replaced by the anonymous band system in 1987. This system of director and executive remuneration disclosure remained in practice before the enactment of the Company Law Review (CLR) Act 1998 on 1st July 1998. The newly proposed disclosure regime was similar to the earlier rejected and short-lived disclosure rules of 1986.

The disclosure regime of the CLR Act 1998 was also heavily criticised because it allegedly invaded the privacy of directors and executives and had a 'vague nature' (Clarkson et al., 2006, p.774, Quinn, 1999, p.95). For instance, during the first year of its enactment, confusion surrounded over the interpretation of term 'emoluments' (Clarkson et al., 2006, p.774). Such fundamental problems and severe criticism led the Australian Securities and Investments Commission (ASIC) to issue an interim period practice note – *PN68* - in November 1998 for clarification. Subsequently, this note was deleted after the enactment of Corporate Law Economic Reform Program (CLERP) Act 2004 (commonly known as CLERP 9) which was enacted to restore and gain public confidence after the series of corporate collapses in the first year of the 21st century – 2001.

As a regulatory reform package, CLERP 9 was one of a series of economic and legal reforms introduced by the Howard government. According to the Parliamentary Secretary of the Minister for Finance and Administration, Peter Slipper (2004), CLERP 9 was a component of wider efforts by the Howard government to modernise business regulation in Australia. These measures were designed to enhance the credibility of the government as a sound economic manager, fostering productivity, growth and development (Slipper, 2004). An important contribution to achieving these goals was seen to be the protection to investors through improved level of disclosure. The ninth instalment of CLERP or CLERP 9 was linked with audit and corporate disclosure reforms and was enacted as the CLERP Act 2004.

As a lead up to the development of CLERP 9, the Government commissioned Professor Ian Ramsay to review and submit a report entitled 'Independence of Australian Company Auditors: Review of Current Australian Requirements and Proposals for Reform' regarding audit independence in Australia. It was handed over in October 2001 (Ramsay, 2001). The Australian government endorsed this report and the Joint Standing Committee of Public Accounts and Audit also submitted a 'Review of Independent Auditing by Registered Company Auditors' report in August 2002. This report complemented Ramsay's recommendations to improve auditing practices in Australia. In addition, this report recognized the problems relating to director and executive remuneration and recommended the full disclosure of remuneration and any performance appraisal system as a good corporate governance practice (Charles, 2002, pp.33-34).

CLERP 9, the latest set of reforms of director and executive remuneration, was presented in September 2002 as a discussion paper titled 'Corporate disclosure: Strengthening the financial reporting framework' with the involvement of different governmental, non-governmental and professional bodies in the proposed financial reporting oversight board structure (Costello and Campbell, 2002, p.2). These entities included the Financial Reporting Council, ASIC, the Companies Auditors and Liquidators Disciplinary Board, the ASX Corporate Governance Council, the Australian Accounting Standard Board (AASB), the Auditing and Assurance Standard Board, professional accounting bodies and other stakeholders. These initial themes represented the policy making impetus and efforts of the Australian government and were consolidated to present the CLERP 9 discussion paper as CLERP (Audit Reform and Corporate Disclosure) Bill in 2003. In 2004, the CLERP (Audit Reform and Corporate Disclosure) Bill 2003 was enacted as legislation.

The CLERP Act 2004 had two major reform agenda items: the first item was the reform of audit practices and the second was related to corporate disclosure (du Plessis et al.,

2005, Farrar, 2005, McConvill, 2004). The Act also brought a variety of reforms with respect to the independence of auditors and auditing activities. The audit reforms in particular included:

1 Auditor rotation rule;
2 A cooling-off period;
3 Disclosure of non-audit services;
4 Attendance of auditors in annual general meetings of the corporation; and
5 Appointment of the Auditing and Assurance Standards Board as a statutory body which was to be supervised by the Financial Reporting Council.

The other important component of the CLERP Act 2004 was a set of reforms associated with corporate disclosure and more importantly the *detailed disclosure of director and executive remuneration*. These disclosure reforms consisted of:

1 Improved level of disclosure of director and executive remuneration in a separate remuneration report which is also subject to a non-binding vote of shareholders;
2 Improved protection of whistleblowers;
3 Better levels of continuous disclosure particularly in reference to any information which can impact company securities. In case of violation of these norms, the Australian Securities and Investments Commission (ASIC) is authorised to issue an infringement notice against the offender(s);
4 An obligation to keep a register of notices of beneficial ownership which will contain information about the details of a person's interest in the company and voting rights;
5 An improved level of shareholder participation by the use of technology and better ways of involvement;
6 A new definition of 'senior manager' which differentiates the manager from the director, company secretary and lower level employees; and

7 A set of reforms in financial reporting which encompasses three important facets: first, a declaration by directors, which states that directors have got a joint declaration signed by the CEO and Chief Financial Officer (CFO); second, the directors' report which includes the management discussion and analysis; and third, if any additional information is incorporated for 'true and fair' view in the report of directors, then the report of directors should discuss the reasons for the inclusion of such information.

In order to facilitate the implementation of these reforms, the role of ASIC was strengthened (McConvill, 2004, p.25). ASIC, as a regulatory institution, administerd and enforced the CLERP Act 2004 provisions such as accounting and auditing standards. ASIC was also involved in the educational role of good governance by engaging another important institution of self-regulation – the ASX. Both these institutions signed a Memorandum of Understanding in 2004 regarding information sharing and enforcing the Corporations Act on a mutual basis (ASIC and ASX, 2004). This document was open to public, and this Memorandum was to be used for the implementation of the CLERP Act 2004 (ASIC and ASX, 2004).

Following the global financial crisis, in March 2009, the Treasury of Australia directed the Productivity Commission to review the current Australian regulatory framework of director and executive remuneration. The prime motive was to strengthen the existing regulation of director and executive remuneration in Australia (Banks et al., 2010). In its inquiry, the Productivity Commission made a wide range of recommendations for regulatory reforms regarding director and executive remuneration. The Australian government recently introduced the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Bill (2011) to address the concerns raised by the Productivity Commission inquiry. This Bill comprises a range of regulatory measures to strengthen

Australia's remuneration framework and to implement the recommendations made by the Productivity Commission. The key aspects of the present Bill are listed below:

1 strengthening the non-binding vote on the remuneration report, by requiring a vote for directors to stand for re-election if they do not adequately respond to shareholder concerns on remuneration issues over two consecutive years;
2 increasing transparency and accountability with respect to the use of remuneration consultants;
3 eliminating conflicts of interests that exist with directors and executives voting their shares on remuneration resolutions;
4 ensuring that remuneration remains linked to performance by prohibiting hedging of incentive remuneration;
5 requiring shareholder approval for declarations of 'no vacancy' at an annual general meeting;
6 prohibiting proxy holders from 'cherry picking' which proxies they exercise, by requiring them to cast all of their directed proxies; and
7 improving the readability of the remuneration report by confining disclosures to the key management personnel (KMP).

2.4.2 ASX regulatory initiatives in Australia

Since the early 1990s, different peak associations and institutions such as the Australian Merchant Bankers Association, the ASX, the Australian Institute of Company Directors, the Sydney Institute, Investment and Financial Services Association Limited (IFSA) and the Securities Institute of Australia had attempted to publish corporate governance codes for best practices. These reports included:

1 Three different editions of the Bosch Report entitled 'Corporate Practices and Conduct' were issued in 1991; 1993; and 1995.

2 Two different editions of the Hilmer Report titled as ‘Strictly Boardroom: Improving Governance to Enhance Company Performance’ were issued in 1993 and 1998.

3 Six different editions of the IFSA Blue Book were issued from 1995 to 2009.

These aforementioned reports addressed some fundamental issues of corporate governance such as functions of the corporate board, independence of company boards, appointment and structure of board subcommittees such as audit, nomination and remuneration, CEO role duality, reporting to shareholders and regulatory compliance. The reports were primarily intended to provide a fundamental corporate governance framework guided by self-regulation. However, these reports did not purport to recommend any explicit self-regulatory framework in regard to director and executive remuneration. Such efforts failed to provide a robust self-regulatory framework for the Australian business community, culminating in a series of corporate collapses from 2001.

To develop a well-accepted and market-oriented framework of corporate governance the ASX took the initiative to consolidate and formalise the universal codes and best practices of corporate governance. The ASX played a critical role by establishing a self-regulatory podium Corporate Governance Council in 2002 which represented 21 different Australian business associations to develop a self-regulatory framework.

The role of the ASX became crucial in soliciting certain corporate governance mechanisms by publishing its first edition of the ‘Principles of Good Corporate Governance Practice and Best Practice Recommendations’ in 2002 (ASX, 2003).The first edition of the ‘Principles of Good Corporate Governance Practice and Best Practice Recommendations’ recommends the following principles (ASX, 2003, p.11):

1 To lay solid foundations for management and oversight;

2 To structure the board for value addition;

3 To promote ethical and responsible decision-making;

4 To safeguard integrity in financial reporting;

5 To make timely and balanced disclosure;

6 To respect the rights of shareholders;

7 To recognise and manage risk;

8 To encourage enhanced performance;

9 To remunerate fairly and responsibly; and

10 To recognise the legitimate interests of stakeholders.

These corporate governance standards were not binding rules but purportedly the best practices recommended for companies. As per their circumstances, firms had to adopt these standards and guidelines set by the peak business and professional associations. In case of non-compliance, an explanation had to be provided. These guidelines thus encouraged flexibility along with transparency, by making companies obliged to principals for explaining 'if not' and 'why not' aspects of the corporate governance mechanisms. In August 2007, the ASX also changed the title of the Council's corporate governance principles and reduced them to eight instead of ten when issuing the second edition (ASX, 2007).

Very recently, the next edition was issued along with 2010 amendments recommended by the Productivity Commission as discussed earlier. The important recommendations and findings of Productivity Commission are included in the ASX Corporate Governance Principles and Recommendations with 2010 Amendments (ASX, 2010). In addition to minor changes in commentary on corporate governance principles and recommendations, the major amendments were.

1 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy.

2 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

3 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.

4 The firm trading policy recommendation was deleted from the second edition.

5 The remuneration committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent director
- has at least three members

6 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

In addition to these amendments, other important recommendations and findings of the Productivity Commission inquiry were incorporated in the listing rules of the ASX. For instance, the ASX amended its listing rules to make it binding for S&P/ASX 300 index firms to have a remuneration committee on their boards and this rule is applicable from January 2011. On similar lines, the ASX has made it binding for the S&P/ASX 300 index firms to have a remuneration committee comprised solely of non-executive directors. This rule became applicable in January 2011.

2.5 Response of the Australian business community

Prior to the institutionalising of CLERP 9, the aforementioned regulatory initiatives, particularly insofar as they dealt with the regulation of director and executive remuneration,

had initially received a hostile reception from the Australian business community. Remuneration disclosure was a controversial issue in Australia as early as in the 1930s as some business leaders like George G. Coles, chairman of G.J. Coles and Co believed that remuneration disclosure of directors should indicate the part of the annual profit paid as bonus because shareholders had an inherent right to know this information (Gibson, 1971, pp.126-127). Much later in 1986, efforts were made to address this issue through a stringent system (Banks et al., 2010, p.37, Hill, 1996). However, this disclosure regime proved to be short-lived and faced heavy criticism from the business organizations and was eventually replaced by the anonymous band system in 1987. The CLR Act 1998 which replaced the anonymous band system of 1987 also experienced profound disapproval from the business community. Similarly, CLERP 9 also received a negative response from the Australian business community.

For instance, Gerry Harvey, Executive Chairman of Harvey Norman, which is the leading Australian retail chain of consumer electronics, is reported to have observed (Robinson, 2003, p.12):

> What is the best form of corporate governance? What we've got. We own half of the company. It's our blood. We get an F for corporate governance and we're proud of it. If you reckon I should … get someone (a non-executive director) who knows nothing about my business, well I don't think my shareholders will be impressed … If you don't like it, sell your … shares.

Likewise, Dick Warburton, a former chairman of the BCA, expressed his views on behalf of the Australian business community to the government:

> We would rather you stuck with principle-based regulation than black letter law, but if you can't do that we will have to revert to the second-best

choice…The culture is by far the most important part of all this, not the rules.

The rule should be: Are you doing the right thing (Pheasant, 2002).

In a similar manner, the BCA, comprising CEOs of the Australian top 100 business corporations, contended that these government interventions ran counter to business performance and the long-term interests of shareholders (BCA, 2003b, p.3). For instance, the current CEO of the BCA, Katie Lahey had reportedly stated in 2003 that the BCA accepted the bulk of the bill which brought better reporting of auditing and financial operations of corporations, but aspects such as delegation of power to regulators, disclosure of executive remuneration and continuous disclosure of information were still flawed (Lahey, 2003). While speaking at the Australasian Corporate Governance Congress in 2003, she specifically criticised the disclosure mandated by the CLERP Bill 2003 and the corporate governance initiatives enforced by the Australian Securities Exchange (ASX) (BCA, 2003a).

Hugh Morgan, former president of the BCA (from 2003 to 2005) observed that corporations were a bundle of contracts, which worked under 'the law of contract and respect for property' and these two aspects were weakened by the regulators, parliaments and courts (Hughes, 2003). In addition, he called the proposed CLERP 9 a 'bad law' as this law could disturb the forces of the free market economy. Moreover, he added that these problems could not be solved by enacting new laws (Twyman, 2003).

The members of the BCA aggressively contributed in the debate over CLERP 9 even as the BCA developed a submission for the Treasury of Australia. This submission welcomed the audit reforms but showed serious concerns over the disclosure component of the CLERP 9 Bill 2003 (BCA, 2003b). The following excerpts from this submission show the dissatisfaction of the BCA with regard to the disclosure of director and executive remuneration.

> The Business Council does not support the proposal to increase the remuneration disclosure requirements to cover up to ten executives. It recognises the principle behind the CLERP 9 proposal is to ensure the true state of remuneration levels across a corporate group is disclosed, not just the remuneration levels within the listed entity. The Council believes, however, that the same effect could be achieved by requiring companies to disclose the remuneration of the top five executives employed within the group, regardless of whether they occupy positions within the listed entity or other entities within the group. Increasing the number of executives covered by the disclosure requirements will only exacerbate unintended consequences from the disclosure requirement, particularly the 'ratcheting up' of executive salaries in a competitive market where demand for experienced and proven executives is strong. It is also inconsistent with general privacy principles and the movement towards greater protection for personal information (BCA, 2003b, p.4).

Similarly, the BCA also argued against the role of shareholders through a non-binding vote in deciding executive remuneration and contended:

> The Business Council does not condone excesses in the area of executive pay. Nor does it condone what are isolated examples in which pay has clearly not been linked with performance. However, it is concerned that what are effectively a small number of instances have become the sole reference point of the debate over executive remuneration. Therefore, it believes the proposal for a non-binding vote on executive remuneration is unnecessary and infringes the basic principle that it is the function of shareholders to approve the remuneration of directors and the function of directors to determine the

remuneration of executives. In this regard, the proposal goes beyond the new UK requirements upon which it is based (BCA, 2003b, p.4).

More recently, the current regulatory efforts by the government have been questioned and challenged by the BCA in its submission regarding the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Bill 2011. The following excerpt from the submission illustrates the extent of opposition by the BCA to the proposed legislation (BCA, 2011, pp.1-2) .

> Given the brevity of time to respond more fully to the Bill, we have concentrated on three key issues. Namely, the 'two strikes' test, the 'no vacancy' rule and the provisions relating to accountability on the use of remuneration consultants…In responding to the Bill and consistent with our previous submissions, the BCA opposes the provisions which implement:
>
> - the 'two-strikes' test; and
> - the proposed changes to the 'no-vacancy' rule.
>
> Further, we have a number of serious reservations in relation to the provisions which relate to the accountability regarding the use of remuneration consultants. We oppose outright the provisions which make a breach of the remuneration provisions an offence under the Corporations Act.

Such direct and strident criticisms uncover the extent to which well-known business professionals were opposed to previous reforms including CLERP 9, and what they specifically stated to express their dissatisfaction with the institutionalisation of the proposed new Act. Yet as discussed in Section 2.2, the investigative findings of the HIH Insurance and the large number of corporate collapses of the last decade highlighted the role of corporate lavishness, and this aspect is also evident in the disbursement of cash based bonuses to the joint chief executive officers of One Tel just before its downfall (Hill, 2006, p.65). In

addition, these bonuses were tied with the market capitalisation which also ignited brouhaha about executive remuneration in the Australian community and government (Hill, 2005, Hill, 2006). Remuneration of executives was considered as one of the important causes behind the collapse of the HIH Insurance (Hill, 2006, p.65, Bailey, 2003). Consequently, these corporate scandals and the global financial crisis had brought director and executive remuneration into the limelight.

In the recent past, remuneration of directors and executives has received attention from both academics and the popular press (Bebchuk and Fried, 2003). This fact is evident from Murphy's claim (1999) that the increase in academic papers regarding the remuneration of the CEO has surpassed the increase in the CEO's pay itself during 1990s. Historical records reveal that there has been a tremendous increase in salaries of executives across the globe. For instance, in the USA, from 1991 to 2003, the total remuneration of a CEO in comparison with the pay of an average worker of an average large company has increased from 140 times to 500 times (Bebchuk and Fried, 2004, p.1). In Australia, the increase in the salaries of top management was less dramatic, but the increase was significant (O'Neill and Clark, 1990, p.12). Over the period of 1971–2008, the growth in CEO pay had been around 470 percent against the 54 percent growth in real average weekly earnings illustrating nearly a nine times increase over the same period (Banks et al., 2010, p.62).

Meanwhile, pay increments linked to equity based performance resulted in an increase of equity remuneration in the latter part of the twentieth century (Hall and Liebman, 1998, Kay and Van Putten, 2007). On the other hand, research on executive remuneration which spans more than seven decades has failed to depict a high statistical sensitivity in the pay-for-performance model (Barkema and Gomez-Mejia, 1998, p.135). Even those researchers who favour market-based contracts merely find a correlation between the pay and the performance in the American context (Kay and Van Putten, 2007, p.13). On the basis of this finding, the

causality between pay and performance cannot be determined, and this issue remains an enigma for researchers. Similarly, in the Australian setting, there are mixed results regarding the pay and performance link.

There are two opposing schools of thought regarding disclosure practices. The first school of thought, represented by Coffee (1984), Easterbrook and Fischel (1984) and Fox (1997), contends that disclosure should be mandated by national statute and should not be left to the discretion of disclosing entities. In contrast, other commentators, namely Choi and Guzman (1998), Macey (1994) and Romano (1998, 2005), claim that companies should disclose information according to their preference because market mechanisms will automatically discipline firms to generate the required disclosure. In the context of unexpected market failure and corporate collapses, the controversial issue of director and executive remuneration faced a serious dilemma with regard to disclosure. More importantly, the rejection of state regulation by market forces raises an important question about what approach should be adopted in developing a regulatory framework to improve disclosure level of director and executive remuneration to protect shareholder interests. More on this issue will be discussed in Chapter Three.

2.6 Summary

As evident from the foregoing narrative, the responses of the Australian business community towards CLERP 9, which solicited an improved disclosure of director and executive remuneration, challenged the very fundamentals of state regulation. Hence an empirical inquiry into how Australia eventually managed to develop an acceptable regulatory framework that aligned state regulation designed to protect shareholder interests with market oriented self-regulation is warranted. In the Australian context, the investigation is made by conceptualising a new corporate governance approach *(*collibration*)* that might have played

an important role in developing a mixed regulatory regime. Chapter Four conceptualises this less examined and novel phenomenon after a review of relevant literature in Chapter Three.

Chapter Three: Literature review

3.1 Introduction

The modern firm represents a basic agency structure comprising principals (owners and shareholders) and agents (executives and directors). The principal and agent engage in a cooperative behaviour associated with each other through contracts but have different self-interests. Agency problems are the result of conflicts of interests between agent and principal.

The separation between ownership and managerial control in corporations, as identified by Berle and Means (1933), is thought to have changed the economic organisation of modern society. This phenomenon originated in the listing of firms on stock exchanges of Anglophone countries at the turn of the 20th century. The increase in the number and diversity of owners or shareholders further complicated agency problems in the modern economic environment. Under this new economic setting, economists examined the phenomenon of risk sharing among groups and individuals (Arrow, 1971, Wilson, 1968). They found that individuals or groups who were engaged in a cooperative activity within a firm displayed attitudinal differences towards risk. Risk preference can be thought of as the degree of an individual's or firm's preference for adventure rather than security (Arrow 1974, Pratt 1964). Different ratios of benefit to risk of different self-interested entities can result in a conflict of interest between principals and agents as they try to maximise their individual utilities.

The aim of this chapter is to review the literature relevant to agency relationships and envision different governance options for solving agency problems. The review is guided by the research question: ‘what market and non-market approaches to corporate governance can effectively protect shareholder interests?’ Different types of agency conflicts and costs are portrayed in section 3.2. The efficacy of control options such as outcome-based (output controls) and behaviour-based (input controls) governance arrangements is elaborated in section 3.3. This section presents a critique of both governance mechanisms in regard to

director and executive remuneration. In the context of market failures and global financial crisis, the critique about the role of pay-for-performance is presented to raise an important question as to *how* an optimal form of governance and regulatory framework can be developed to minimise agency conflicts.

Section 3.4 explores the merits of a mixed regulatory regime that refocuses on behaviour-oriented controls or a paternalistic approach to governance. Complementarities between state regulation and self-regulation are explained with respect to disclosure of director and executive remuneration. Section 3.5 briefly sheds light on the role of *collibration* as a modern governance approach to address agency conflicts. Finally, gaps in the existing literature are presented in section 3.6.

3.2 Agency conflicts and costs

According to Berle and Means (1933) the separation of ownership or 'depersonalization' of a corporation led it to emerge as a distinctive social institution (Alchian and Demsetz, 1972, Jensen and Meckling, 1976, Ross, 1973, Mitnick, 1975) particularly insofar as it related to the diverse political, economic and social interests of capital providers –owners, employees and customers. According to this view, the firm is a nexus of contracts among individual factors of production where different parties are operating, such as owners, shareholders, managers, creditors, employees and others (Jensen and Meckling, 1976, p.357). The ownership structure is complicated when one party (the principal) delegates the work and provide resources to other party (the agent), who carries out the work on behalf of the principal (Jensen and Meckling, 1976, p.308). Multiple agents who collectively undertake a task tend to have competing interests which are based on their self-serving agendas (Shapiro, 2005, p.267). The presence of multiple principals and multiple agents increases information asymmetry problems thereby leading to monitoring difficulties. Vested interests give rise to conflicts between various contracting parties namely the

shareholders, managers and lenders of contemporary corporations. These conflicts of interests generate agency conflicts and costs in a firm (Jensen and Meckling, 1976, p.308).

Agency problems are vast in number but the positivist and principal-agent schools of thought divide them into four broad areas (Eisenhardt, 1989a, pp.59-60, McColgan, 2001, p.4). These are moral-hazard agency conflicts, earnings retention agency conflicts, time horizon agency conflicts and managerial risk aversion agency conflicts.

3.2.1 Categories of agency conflicts

Moral-hazard agency conflict arises when an agent engages in self-serving behaviour or shirks responsibilities by exploiting firm resources including time for personal use. Lack of perfect contracting and observation of each and every action of agent by principal allows the agent to indulge in the self-serving behaviour. These limitations create informational asymmetry problems between principal and agent (Holmström, 1979, p.74). Information asymmetries, eventually, give rise to a situation of *moral hazard* in which the agent can access specific information which cannot be acquired by the principal (Gomez-Mejia and Balkin, 1992, p.923).

As identified by Jensen (1993), the moral-hazard agency problem can become more acute in the case of larger firms with bigger scope of operations which generate huge informational asymmetries. The information asymmetries cause the flourishing of organisational transgressions which remain unnoticed until the competing agents reveal the real information (Shapiro, 2005). For instance, the financial reports of Enron portrayed a perfect picture about its financial health whilst the real information was only revealed through whistle-blowing. In order to minimise the occurrence of moral-hazard agency conflict, it is commonly proposed that monitoring efforts should be increased – a process that incurs additional monitoring costs (Healy and Palepu, 2001, p.408).

The second type of agency conflict is the *earnings retention conflict*. This conflict arises when the agent is tempted to retain earnings and the principal is looking for immediate return on its investment (Jensen, 1986, p.323). Retention of earnings is driven by the agent's preference for maximising the future prospects of the firm by safeguarding against under-investment. By contrast, the principal tends to favour short-term distribution of earnings and becomes more concerned with the issue of over-investment. The excess of funds in the case of over-investment can increase the chances of an agent following a vested agenda in the name of securing firm growth and prosperity (McColgan, 2001, p.10). Studies of remuneration structure have found that director and executive remuneration are positively associated with the size of the firm (Conyon and Murphy, 2000, Jensen and Murphy, 1990). This linkage encourages agents to increase firm size through retained earnings, in order to receive larger salaries by compromising the dividend return to shareholders. The empirical results show that the strategy of earnings retention ultimately affects the wealth of shareholders (McColgan, 2001, p.10).

The third category of agency conflict is *time horizon agency conflicts*, which is related to the timing of cash flows. The principal would like to have a future cash flow for an indefinite time period (McColgan, 2001, p.11). However, agents will be concerned to retain cash flow only for the term of their employment, which may lure them to invest in short-term projects. This agency conflict becomes heightened when top management reaches retirement age or decides to leave the company. Empirical evidence reveals that management tends to manipulate earnings before leaving office: in this case, increase in earnings is channelled into huge amount of performance based bonuses for top executives (Healy, 1985, p.85).

Last but not least, agency conflict arises from *managerial risk aversion* due to a divergence in attitudes towards interest and risk between principal and agent. Agents will be inclined to minimise the risk of the firm since the agent's current and future income is

directly associated with the risk profile of the firm (McColgan, 2001, p.11). On the other hand, shareholders who presumably carry a diversified portfolio will pressurise the agent to invest in high-risk projects so that they can get a higher return. The agent, however, has the majority of human capital, and possibly financial capital, tied up in the firm. In general, then, a manager stands to lose much more if a project fails than does the typical shareholder, and this creates the potential for conflicts of interest with regard to investment policy (Denis, 2001). This situation brings additional agency costs.

3.2.2 Types of agency costs

The impossibility of perfect contracting between agent and principal makes it difficult for the principal to ensure that the agent will always act in the best interest of its principal (Brennan, 1995, p.13). Agency costs are usually reflected in share prices. Shareholders thus have to sacrifice the value of their shares as a result of agency conflicts and these losses can be denoted as agency costs (Jensen and Meckling, 1976, pp.308-309). Agency costs include the sum of monitoring costs, bonding costs and residual loss.

Monitoring costs are expenditures borne to observe, monitor and control the behaviour of agent by the principal (Jensen and Meckling, 1976). These costs are incurred by way of conducting audits, producing required disclosure, monitoring executive remuneration contracts and ultimately firing the managers in certain situations (McColgan, 2001, p.4). Divergent views exist among researchers regarding the increased monitoring of agents. For instance, Denis, Denis and Sarin (1997) argue that effective monitoring can improve the working of corporations. On the other hand, Burkart, Gromb and Panunzi (1997) argue monitoring can limit managerial initiatives and threaten managerial entrepreneurship.

Bonding costs are incurred to ensure that the agents actions are in the best interests of the principal (Jensen and Meckling, 1976, p.309, McColgan, 2001, p.6). These costs are

usually reflected in bonding efforts (Depken et al., 2005)[4]. To reduce bonding costs, the contract of the agent can be designed in such a way that it will entice the agent to make those decisions which are in the best interest of the principal (Denis, 2001, p.201) and maximize shareholder wealth. However in order for such a contract to be complete, it would need to spell out every possible eventuality and specify what action the manager should take in that situation (Denis, 2001, p.201). This is implausible, as evident from the role of performance based remuneration in corporate collapses of the current decade (Coffee, 2004, Gordon, 2002, Hill, 2005, Hill, 2006).

Residual loss is the dollar equivalent difference between the actual decisions of the agent and those decisions which would have maximised the welfare of the principal (Furubotn and Richter, 2005). In a real-life scenario, it is difficult to quantify residual loss. However, this loss can be articulated in terms of an outcome in which the cost of complete enforcement of the principal-agent contract outweighs the total benefits: this negative difference will be the residual loss (McColgan, 2001, p.7, Fama and Jensen, 1983a, p.328).

3.3 Control or governance strategies for addressing agency problems

As mentioned in the previous section, information asymmetries give rise to a situation of moral hazard in which the agent can access specific information which cannot be acquired by the principal (Gomez-Mejia and Balkin, 1992, p.923). In the case of incomplete information, the principal has two options. The principal can purchase information about the agent's behaviours and reward those behaviours. This requires the purchase of surveillance mechanisms such as cost accounting measures, board of directors, state legislation budgeting systems, or additional layers of management. Alternatively, the principal can reward the

[4]Depken, Nguyen and Sarkar (2005) argue that it is impossible to observe or quantify bonding efforts, however, they have used two different proxy measures for bonding efforts and these are advertising expenditures and asset turnover ratio. The higher values of the above measurements indicate lower agency costs.

agent based on outcomes (e.g. profitability). Such outcomes are surrogate measures for behaviours. Thus when devising the optimal contract, the principal has to decide whether a behaviour-oriented contractual governance that focuses on input controls (e.g. salaries, hierarchical governance, information systems) is more efficient than an outcome-oriented contractual governance that focuses on output controls (e.g. commissions, stock options, transfer of property rights, capital markets for corporate control) (Eisenhardt, 1989a, Oliver and Anderson, 1994). These controls have similar goals but represent different governance and managerial philosophies. Outcome-based contractual governance is based on a laissez-faire approach that relies on market-based mechanisms of governance. This approach governs agents by empowering and rewarding them according to their performance. Performance based remuneration systems delegate control to agent (chief executive officer) making the role of other control mechanisms such as company boards and information management systems less relevant.

Varying levels of outcome uncertainty, information availability and other such factors affect the choice between behaviour-oriented and outcome-oriented contractual governance (Eisenhardt, 1989a). Uncertainty in the environment (for example, multiple competitors and government policies) raises the costs of outcome control. Organisations can compensate for outcome uncertainty by increasing information systems (for example, additional layers of management, independent corporate boards, improved accounting procedures and more frequent formal reports) or by social controls. These social controls include formalised institutions, legal regulatory systems, government bodies, and professional associations (Deakin and Cook, 2000). Under conditions of high outcome uncertainties therefore, a behaviour-oriented, rather than outcome-oriented contractual governance is more appropriate (Eisenhardt, 1989a). Such conditions are characteristic of an increasingly complex, globalized world, where financial markets are intertwined, and wherein performance

outcomes in capital markets become increasingly unpredictable. This suggests that refocusing on self-regulatory practices that emphasize input controls may be helpful.

However until recently, outcome oriented contracts which align the preferences of agents with those of the principal were very much in vogue (Denis, 2001, Depken et al., 2005, Jensen and Meckling, 1976, Kay and Van Putten, 2007). It has been argued that the rise of market-based control mechanisms was an outcome of government policies of public ownership of industries. This public ownership led to a downplaying of ownership responsibilities, with little attention focused on ensuring a system of accountability and transparency and the questioning of management (Bebchuk and Fried, 2003). In the private sector, large institutional investors were often also reluctant to interfere with the internal workings of firms, being concerned only with dividends and returns. With such an emphasis on ownership rights, both public and private institutions were disinclined to develop robust systems for behavioural controls or checks for corporate governance (Kirkbride and Letza, 2004).

The challenge is to adopt reward schemes, such that individuals pursuing their own self-interest will also pursue the collective interest (Jensen and Meckling, 1976). The market's solution is to determine the optimal contract for the agent's service (Eisenhardt, 1989a). The increased focus on market solutions resulted in increased levels of agency problems, particularly during market failures, hence this solution became futile. Moreover the adoption of outcome based contracts or pay for performance models had unintended effects during the latter part of the twentieth century (Cheffins, 2003). Researchers (Coffee, 2004, Gordon, 2002, Hill, 2005, Hill, 2006, Bebchuk and Fried, 2004) argue that the pay-for-performance model does not necessarily relate to actual corporate performance and it has itself resulted as a agency problem.

A series of corporate collapses and market failures in the last decade uncovered the inadequacies of market-based controls and the risks of an over reliance on such mechanisms. In the wake of market failures, refocusing of behaviour-oriented controls promised better corporate control or governance (Sundaramurthy and Lewis, 2003, Himmelberg et al., 1999). Behaviour-oriented contractual governance is a paternalistic approach by which agents are guided by company boards and information management systems shifts more responsibility to company boards and other input control systems for the management of firm performance. This philosophy permits the provision of feedback and guidance with respect to firm performance. The following subsections 3.3.1 and 3.3.2 reviews in detail these alternative governance strategies for interest alignment and minimising agency problems.

3.3.1 Outcome-based controls

3.3.1.1Market mechanisms

Financial and principal-agent theorists have depicted the firm as a nexus of contracts with the sole aim of maximising shareholders' (principals') wealth. These analysts propound that product, capital and managerial labour markets can discipline the behaviour of the agents (Eisenhardt, 1989a, Fama and Jensen, 1983b, Kirkbride and Letza, 2004). The market pressures constrain the behaviours of agents and these constraints can also address the issues of underperformance of the agents.

Product markets check inefficiencies of firm management through market competition, which in turn, controls the firm cost structure including the cost of capital (Denis, 2001). Management inefficiencies are reflected in higher costs and poor performance in product-markets – causing financial distress, and impacting share prices. Lower share prices indicate management failure and the market can demand the change of management. Capital markets discipline inefficient management by penalising poor performance and inefficient use of organisational resources via takeover threats and facilitate the transfer of

firm assets to more efficient managers (Jensen, 1986). Poorly performing firms that do not meet certain performance indicators such as profit, dividend payments etc. are more likely to be targets of takeover attempts and their managers are more likely to be fired (Shleifer and Vishny, 1997, Holmström and Kaplan, 2001). However, empirical evidence suggests that takeovers do not necessarily perform a market disciplining function. Indeed, Franks and Mayer (1996) find little evidence of poor performance prior to takeover bids. Similarly, Mikkelson and Partch (1997) found no relationship between firm performance and management turnover. Elsewhere, McColgan argues that capital markets are futile because of higher costs associated with organising takeovers especially through premium bids and management resistance (McColgan, 2001, p.39).

The managerial labour market exerts a disciplining effect on both managers and board members by penalising poor performance (Gillan, 2006, Meckling, 1976). Direct pressures are exerted on the firm to offer performance oriented remuneration and design remuneration schemes that reward those managers who make decisions aligned with shareholders' interests (McColgan, 2001). Coughlan and Schmidt (1985), Murphy (1999), and Warner et al. (1988) find that good performance is positively associated with CEO remuneration, whereas poor performance increases the likelihood of termination or CEO turnover. Such remuneration packages can signal that the best talent is demanded for utility alignment between principals and agents. Labour market-based contractual governance mechanisms give rise to pay-for-performance model for addressing agency problems in modern corporations. At an empirical level, the emergence of the pay-for-performance model has received substantial attention in recent years – something which will be discussed next.

3.3.1.2Pay-for-performance model

Agency theory and executive remuneration literature suggests that utility alignment between agent and principal may be attained through tying in agent remuneration directly

with firm performance or firm value (Denis, 2001, Depken et al., 2005, Jensen and Meckling, 1976, Kay and Van Putten, 2007). This model aligns the benefits of shareholders who want maximum returns on their common stocks with management by offering them such incentives which are associated with the increase in the value of the firm's common stock (Denis, 2001, pp.196-197).

Director and executive remuneration package usually consists of five main components (Mallin, 2004, p.110, Shields, 2007, pp.470-471): annual base salary; benefits; short-term incentives (STIs); long-term incentives (LTIs) and termination and post employment payments. The annual base salary and benefits are not directly associated with firm performance. These remuneration components represent contractual governance arrangements and reflect firm size with respect to market capitalisation and perceived risk involved in the job position (Eisenhardt, 1989a). On the other hand, STIs and LTIs are contingent upon achieving positive performance outcomes (Mercer, 2009, p.12). These components provide the opportunity for utility co-alignment between principals and agents. These variable remuneration schemes are prevalent in the Anglophone countries which rely mostly on bonuses and equity based remuneration packages (Mallin, 2004, p.109, Mercer, 2009, p.13).

Another important element of director and executive remuneration is termination and post-employment payments also known as golden parachutes. These include severance payments with respect to length of service. These payments include early contract termination payments representing proportions of annual base salary; post employment consultancy fees; and any other special retirement benefits including spouse pensions, free air travel and accommodation (Shields, 2007, p.471).

3.3.1.3Empirical evidence

As observed in the previous section, the pay-for-performance model represents outcome-based contractual governance disciplined through managerial labour markets (Eisenhardt, 1989a, p.64, Jensen and Murphy, 1990, McColgan, 2001). The pay-for-performance model resulted in an increase of equity remuneration in the latter part of the twentieth century. For instance, Hall and Liebman (1998, p.661) reported that 30 percent of CEOs in the USA received new options grants in 1980 with mean salary of US $655,000 and mean options grants of US $155,000. This percentage of option grants grew to 70 percent in 1994 with the mean cash pay of US $1.3 million and mean options grants of US $1.2 million. In the Australian context, Banks, Fitzgerald and Fels (2010, p.41) found that average executive pay in the ASX 100 firms grew with an increase of 170-210 percent from 1993 to 2009, or an increase from 17 times average earnings in 1993 to 42 times in 2009.

Such notable increases in remuneration due to stock options raises important empirical questions about the link between director and executive remuneration and firm performance. There are varying views on the effectiveness of linking executive remuneration with organisational performance. (Barkema and Gomez-Mejia, 1998) has shown a generally low level of correlation between the pay of top management and corporate performance. More recently, Kay and Van Putten (2007, p.13) found a positive and significant correlation but no causality between CEOs' pay and the performance of the 1000 American corporations from 2002 to 2005, inferring that higher performance may lead to higher salaries or vice versa, confounding causality. The meta-analysis of the 137 CEO pay studies also reveals that the 'firm performance accounts for less than 5 percent variance in total CEO pay' (Tosi et al., 2000, p.301).

The adoption of outcome based contracts or pay-for-performance models often have unintended effects (Coffee, 2004, Gordon, 2002, Hill, 2005, Hill, 2006, Bebchuk and Fried,

2004). In the wake of corporate collapses and global financial crisis in the Anglophone countries, the empirical validity of interest alignment through the pay-for-performance model came into serious question. The last decade, starting with the collapse of Enron and ending with the global financial crisis, has challenged certain fundamentals of shareholder capitalism, in particular, the role of outcome-based contractual governance mechanisms (Gordon, 2002). Cases such as Enron, where hundreds of millions of dollars in executive bonuses continued to be paid even as the company was in free fall, raised serious questions (Gillan and Martin, 2002, p.32). What is more, taxpayers' money (so-called bail-out packages) was allegedly being utilised to pay performance-based cash bonuses to corporate executives (Donmoyer and Litvan, 2009).

Australia was not very different to the USA with respect to director and executive remuneration. Director and executive remuneration became a contentious issue, even considered to be amongst the prime causes behind a series of corporate collapses in 2001 (Kohler, 2001). Corporate failure, from One Tel to HIH Insurance, Adelaide Bank, National Australia Bank and James Hardie Group, appeared to be no impediment to the continued payment of very large executive bonuses (Lekakis, 2001, Bolt, 2004, Charles, 2004). A heated public debate about executive remuneration was the result (Hill, 2005, Hill, 2006).

In Anglophone countries including Australia, there was enormous increase of equity based remuneration of company executives, but not necessarily improvement in performance (Cheffins, 2003). In fact, Bebchuk and Fried (2003) and Gordon (2002) contend that the pay-for-performance model itself emerged as an agency problem. An indication of this was the increase in short-term tenure of CEOs in the US during the 1990s. Financial manipulations to increase share prices resulted in huge executive bonuses via stock options without necessarily improving corporate performance(Coffee, 2004, pp.297-298, Kahan and Rock, 2010).

The empirical evidence of market failures demonstrate that modern corporations cannot solely rely on outcome-based or market-based governance mechanisms (Kirkbride and Letza, 2004, p.86). The governance of modern corporations requires additional corporate governance control systems. These additional mechanisms are the behaviour-based contractual governance controls that are elaborated in detail in the following subsection.3.3.2

3.3.2 Behaviour-oriented controls

Behaviour-oriented contractual governance is an alternative mechanism to outcome-based contractual governance to address agency problems (Oliver and Anderson, 1994, p.54). Behaviour-oriented controls facilitate principals to monitor and evaluate the behaviour of agents. These monitoring mechanisms include straight salaries for agents, board of directors and information systems (Eisenhardt, 1989a). Agency theorists propose that investments in information systems such as budgeting systems, reporting procedures, boards of directors and additional layers of management can curb agent opportunism by keeping the principal informed about what the agent is actually doing. Many view boards of directors as the lynchpin of corporate governance with a fiduciary obligation to shareholders, and the responsibility to provide strategic direction and monitoring. Others examine board activity (Vafeas, 1999) and the structure and activity of board subcommittees (Klein, 1998, Klein, 2002a, Deli and Gillan, 2000). In addition, several papers examine the role of CEO duality, i.e., where the CEO is also chairman of the board (Baliga et al., 1996, Brickley et al., 1994, Goyal and Park, 2002). Anderson, Mansi and Reeb (2004) report that the cost of debt is lower when boards and audit committees are both independent and active.

3.3.2.1Independence of board of directors

An important behaviour-based contractual governance arrangement for addressing agency problems is the establishment of board of directors. The board of directors is an internal control mechanism that represents the apex of a firm’s internal governance structure

(Fama and Jensen, 1983a, Fama and Jensen, 1983b, Davidson et al., 2005). Fama and Jensen (1983b) described the information role that boards of directors may play in controlling managerial behaviour. Boards of directors have the prime responsibility for hiring, compensating and firing the firm management (Jensen, 1993). In doing so, the board provides an effective monitoring mechanism.

Board effectiveness is ascertained from the level of board independence as per the agency theory perspective (Dechow et al., 1996). Outside independent directors have been found to be more vigilant than insiders and hence may be expected to act as more effective monitors to reduce agency problems (Fama and Jensen, 1983a, Fama and Jensen, 1983b, Gillan, 2006). Boards with greater proportions of outsiders are more likely to remove a poorly performing manager, as are smaller boards. Similarly, firms whose boards have greater proportions of outsiders appear to make better acquisition-related decisions, whether as acquirers or as targets (Denis, 2001). Non-executive directors supposedly act as effective monitors because they want to exhibit and establish their reputation as decision experts in conflictual situations. Vigilant monitoring of management by non-executive directors can ensure better protection for principals (shareholders). Primarily, board size has been the focal themes of the research (Yermack, 1996, Rosenstein and Wyatt, 1990).

3.3.2.2Remuneration Committee

A remuneration committee, which is a sub-group of the board and responsible for the important task of developing a remuneration package for executives, may also play an important role in provision of information to curb the agency problem (Williamson, 1984, p.1216). The delegated responsibility of a remuneration committee is to design and review employment contracts and set remuneration, and more importantly, to design an outcome-based remuneration scheme that can align the interests of agents with principals (Carson, 2002, p.6). In the absence of an independent remuneration committee, Williamson (1984,

p.1216) argues that it would be similar to a situation in which an executive writes his/her employment contract with one hand and signs with the other. Therefore, the presence of a remuneration committee can act as an important mechanism of corporate governance by which the board can set remuneration policies, and provide more information to shareholders in a transparent manner (Conyon and Peck, 1998).

3.3.2.3CEO-chairperson duality

Other researchers (Vafeas, 1999, Klein, 1998, Klein, 2002b, Klein, 2002a, Baliga et al., 1996, Brickley et al., 1994, Goyal and Park, 2002) have examined the relationships between firm performance and CEO duality. Role separation between chairperson and CEO can enhance the effectiveness and independence of the company board (Jensen, 1993, p.866). Usually, the firm CEO dominates the company decision processes and its presence as company chairperson can compromise the level of independence between company board and management. Yermack (1996, p.198) suggests that high level of agency problems can be caused due to the CEO role duality. In case of role duality, the monitoring activity as one of the prime functions of the company board can be compromised when the flow of information is controlled by the insider (CEO) to the outsiders (Williamson, 1984, Yermack, 1996). This information control can lead to opportunistic behaviour by the agent and result in a lower level of information disclosure. Therefore the presence of CEO on the remuneration committee is usually negatively associated with disclosure level of director and executive remuneration.

3.3.2.4Board diversity

Researchers (Carter et al., 2010, Carter et al., 2003) argue that gender-diversity on a company board can increase the board's independence. Adamsa and Ferreirab (2009) found that women in US firms have better attendance records than their male counterparts. They also note that women directors are likely to assign greater resources to monitoring activities.

Fondas (2000) argues that the presence of women directors can potentially help the board fulfil its strategic role because women may have a slight edge in terms of impacting strategic planning. Burke (2000a) notes that the continuing reliance on male CEOs for board members is less practical and potentially dilutes quality, since there are not currently enough talented directors to go around. Burke (2000b) also notes that women can add important symbolic value both inside and outside the organisation, linking the firm with other constituencies. Similarly, Selby (2000) observes that by having women board members in the top US firms can create diversity in values through their 'questioning culture'. Bilimoria and Wheeler (2000) and Mattis (2000) state that women directors help foster competitive advantage by dealing effectively with diversity in labour and product markets. Bilimoria and Wheeler (2000) see women directors as champions for change because they tend to be younger than their male counterparts and are open to relatively newer ideas and approaches to doing business.

3.3.2.5External control mechanisms – hierarchical governance

The most basic corporate governance mechanisms exist outside the firm, in the system of laws and regulations that govern the firm (Gillan, 2006). Shleifer and Vishny (1997) suggest that a fundamental determinant of how a firm's corporate governance system develops is the extent to which the legal system protects its investors and the extent to which there are large investors in the firm (Denis, 2001). One such basic mechanism is hierarchical governance – an important behaviour-oriented control. This form of behaviour-based control can take the form of state legislation for corporate governance. State regulation is considered as one of the principal solutions to agency problems (LaPorta et al., 2000, Denis, 2001, pp.198-199). Legally required disclosure can be used as an effective mechanism for addressing the agency problems by reducing monitoring costs (Mahoney, 1995, p.1048). For example, in the US after the collapse of Enron in the beginning of the last decade, the

Sarbanes Oxley Act 2002 was enacted to strengthen investor protection, audit practices and disclosure regimes.

However, such state intervention is often unpopular with the corporate sector (Kirkbride et al., 2005, p.68). Proponents of outcome-based or market-based contractual governance oppose government intervention in market affairs (Hart, 1995, p.686). It is argued that statutory-based controls can be counter-productive as they can limit the abilities of firm founders or owners to tailor corporate governance mechanisms according to their circumstances. Particularly, this argument gained support from researchers like (LaPorta et al., 1998) who demonstrated that among 49 countries of Europe, North and South America, Africa, Asia, and Australia that it was primarily the common law countries that had better protection of shareholders and creditors than civil-law countries. In a similar manner, Denis (Denis, 2001, p.199) argued that in case of the USA, the enactment of anti-takeover laws in 41 states had given more power to managers and resulted in an increased level of conflict of interest between managers and shareholders.

Hence there are two contending schools of thought regarding state-mandated corporate disclosure – those who support it Coffee (1984), Easterbrook and Fischel (1984), Fox (1997) and those who oppose it and prefer market mechanisms Choi and Guzman (1998), Macey (1994), Romano (1998, 2005).

3.3.2.6Empirical evidence

One of the first studies that examined the relationship between quality of statutory remuneration disclosure and corporate governance was conducted in the UK (Forker, 1992). This research found that adopting behaviour-oriented controls with respect to board of directors such as board independence and role separation between CEO and chair led to increased levels of monitoring, thereby reducing the personal gain to managers from withholding information. In the Australian context, Coulton et al. (2001) explored the impact

of board size, characteristics of board members, and the presence of the remuneration committee on the company board and found no relationship between these characteristics and statutory disclosure level. Clarkson et al. (2006) determined the impact of governance mechanisms as a single factor on the disclosure quality of director and executive remuneration. These mechanisms included independent directors on company board, independent remuneration committees, role duality of CEO and chair and independent audit committees. The results of this study showed that the single factor of corporate governance is positively associated with disclosure; however, it was not possible to determine if all of the four factors constituting this single factor were related to disclosure level.

Bassett, Koh and Tutticci (2007) examined the role of corporate governance in employee stock option disclosures. They found that disclosure is positively related with external auditor quality but had negative association with the dual role of CEO and chairperson of the board. In another study, Liu and Taylor (2008) found a negative association between the presence of executive directors on company boards and disclosure extent of share rights, options and termination benefits to executives. However, with respect to the presence of a remuneration committee, Liu and Taylor (2008) did not find a significant result. Very recently, the nature and extent of statutory executive stock option disclosures was examined with respect to corporate governance factors by Nelson et al. (2010). Factors associated with good internal governance, including board and remuneration committee independence, were found to contribute to improved levels of disclosure.

It is instructive to note here that most of the aforementioned studies (except Liu and Taylor, 2008) did not examine direct relationships between the presence of a remuneration committee and disclosure level of director and executive remuneration. Nor were the effects of committee composition, CEO presence on the remuneration committee, or gender diversity of the remuneration committee examined by earlier studies conducted in Australia. Similarly,

the role of remuneration consultant was rarely investigated with respect to disclosure of director and executive remuneration.

3.4 Problem of asymmetric information: Disclosure of director and executive remuneration

From the foregoing discussions, it is apparent that failures of corporate governance are linked to inadequate financial reporting and disclosure (Whittington, 1993). Financial disclosure is vital for the efficient working of markets (Healy and Palepu, 2001, p.406)and detailed disclosure assists market stakeholders to assess risk and make effective decisions thereby strengthening the competitiveness of markets (Houthakker, 1982, p.483). Eisenhardt (1988, p.64) argues that good quality information systems can control for managerial opportunism. For instance, a detailed and better disclosure of director and executive remuneration can equip a principal to monitor the pay-setting process and verify that either executive remuneration of the agent is effectively aligned with the wealth maximisation of principal or not (Thévenoz and Bahar, 2007, p.19).

Business decisions are made in an ex post scenario, based on the level of disclosure of previous reported years. Good level of disclosure can enable investors to act and manage conflicts of interest in the agency relationship (Gilson and Kraakman, 1984, Thévenoz and Bahar, 2007, p.19). What is more, disclosure of director and executive remuneration can reduce the information asymmetry by addressing structural and procedural problems of executive remuneration (Ferrarini and Moloney, 2004, p.300). With detailed disclosure of director and executive remuneration, shareholders can also monitor to what extent board members have acted in the interest of shareholders in the process of negotiating the salaries with executives (Ferrarini and Moloney, 2004, p.300). In particular, disclosure of performance-based remuneration can empower the principal at an individual level to decide

about the continuation of business with a controversial fiduciary (Thévenoz and Bahar, 2007, p.19).

However any consideration of how financial information systems can be improved has to have regard to the national system of corporate governance within which it operates. Corporate governance systems determine both the appropriate form of financial information system and the appropriate means by which it can be best obtained (Whittington, 1993). Therefore it is necessary to return to the question posed in the beginning of this chapter: what market and non-market approaches to corporate governance would increase information disclosure and mitigate agency costs? The oldest and most pervasive form of market regulation is self-regulation by accountants, auditors and professional bodies. A self-regulatory system can enforce standards if it has power to debar those entities that do not conform to its standards (Whittington, 1993). However self-regulatory mechanisms are often not sufficiently effective in building consensus amongst divergent interests. This will lead to self-regulation being replaced by more broadly-based state-regulation which has greater independence from the groups being regulated (Whittington, 1993). Law (legalised disclosure) is considered as a solution to the agency problem (information asymmetry) according to Healy and Palepu (2001, p.408). Scott (2008) describes law as the symbolic system that has coercive features and is implemented through a set of protocols which are followed by the complying entities. Indeed, as a powerful institutional mechanism, law can influence the behaviour of organisations.

3.5 Contemporary governance approaches to address agency conflicts

3.5.1 Institutional context

A related strand of literature which sheds light on the question of the appropriate form of governance is institutional theory. North (1990) explains institutions using the symbolic analogy of 'rules of the game' (1990, p.3). Institutions are environments, and organisations interact with them to become institutionalised in certain modes of behaviour. (Greenwood et al., 2008) and Meyer and Rowen (1977, p.341) describe institutional context as consisting of binding and powerful institutional rules which cannot be manipulated at the discretion of any individual or organisation. Tolbert and Zucker (1983) called organisations the 'captives of the institutional environment in which they exist' . Meyer and Rowen (1977) defined institutionalisation as the process in which 'social processes, obligations or actualities' take rule-like status in social thoughts and actions. The aspects which gain rule-like status, ultimately, become institutionalised. In other words, Zucker (1983) described institutionalisation as a situation when 'alternatives may be literally unthinkable' . Consequently, institutionalisation as a process propels organisations to exhibit institutionalised behaviour by following its institutional context. Economic historians observe institutions as consisting of formal and informal rules that regularise human interaction (North, 1990). The deviation from these rules may lead to sanctions against offenders. As a result, the implementation of such rules rests on a legal framework which drives through authority and force (Scott, 2008, pp.52-53).

There are three different institutional mechanisms which cause organisations to become isomorphic to the environments they face: coercive, normative, and mimetic. Scott (2008) extended this discussion by articulating these isomorphic pressures into three

institutional pillars of organisational legitimacy – 'regulative' 'normative' and 'cultural-cognitive'. Coercive isomorphism originates as a political pressure from the regulative institutional pillar on which the organisation is dependent (DiMaggio and Powell, 1983, p.150). This external pressure converges the behaviour of organisations towards homogenised practices and is forcefully exerted by powerful organisations including government. Lack of conformity to this institutional pressure can accordingly be sanctioned. Rules and laws which are equipped with power carry governance systems for organisations. Through state regulation laws can be enacted by a government to govern the relationships between agent and principal. These governance systems are implemented through protocols or standard operating procedures (SOPs). Using SOPs, a principal can monitor the agent through the disclosure in remuneration reports as set by legal protocols and can spot any non-conforming entity.

The normative pillar consists of values and norms (Scott, 2008, Selznick, 1957). Norms give guidelines as to how activities should be performed by following the right processes and procedures so that desired or valued goals can be met (Gibbs, 1965). Normative isomorphism arises from professionalization (DiMaggio and Powell, 1983, pp.152-153). The occupants of a certain profession exert pressure for defining their working conditions and gaining occupational autonomy for their profession. In this struggle, however, they not only have to compete at an organisational level, but they must also deal with regulators, pressure groups and clients who can put pressure on them (DiMaggio and Powell, 1983, pp.153-154). A formal network of professionals is an important source of normative isomorphism. The basic thrust of norms compliance is to maintain those standards which are either imposed by external sources or self-devised by organisations. This objective conforms to the moral roots of institutions and illustrates how institutionalisation takes place (Greenwood et al., 2008, p.5).

Norms and values become very important in corporate governance as they evolve (Fiss, 2008, Hill, 2005). Normative isomorphism thus forces organisations to comply with their social obligations and creates identical organisational practices and processes (Greenwood et al., 2008, pp.6-7). Professional bodies at national and international level exert pressures on their respective professional members to comply with professional norms and this phenomenon can generate homogenised practices and processes across different organisations.

When applied in the debate regarding what approach is to be adopted in developing a framework that brings about change in behaviour oriented controls for better corporate governance, institutional theory demonstrates that linkages between regulatory and normative pillars are similar to those of state and self-regulatory mechanisms respectively. For example, the regulative pillar confers legitimacy to those organisations which comply with established legal requirements brought forth by state regulation. The normative pillar furnishes legitimacy to those organisations which conform to certain internalised controls or self-regulatory standards which in turn confers legitimacy in the regulatory domain for conformant organisations. In stable social systems, these institutional pillars operate collectively with their distinctive bases of legitimacy (Scott, 2008, p.61). However the misalignment of these pillars could lead towards confusion and instability (Strang and Sine, 2002, p.499) as was evident after corporate collapses. Herein the state could step in to alleviate market failures.

3.5.2 The role of the state

Kirkbride and Letza (2004) suggest that development of regulation for corporate governance requires a shift away from the homeostatic approach of standard setting towards a holistic approach. Researchers (Lazzarini and Mello, 2001, Pirrong, 1995, Houthakker, 1982) have examined the role of state regulation and self-regulation in derivative markets; they urge

investigations into the complementarity or linkages between state and self regulation. Villiers and Boyle (2000) likewise reject an either/or dualism in favour of the establishment of an appropriate mix of both state regulation and corporate self-regulation. Menodza and Vernis (2008) argue that today's *relational state* emphasises co-responsibility in public and private spheres – which was a missing feature in previous modes of state. The European Commission or EC (2003) also notes a marked increase in public-private cooperation of late.

Governments hold a privileged status to guide and mobilise society by producing and disseminating information, raising awareness and promoting self-regulation. It is widely acknowledged that without state-regulation, markets cannot function properly (Cooper and Keim, 1983). In the absence of state-regulation, market forces cannot fairly distribute information among key market players that then culminates in market inefficiencies (Beaver, 1998).

The organisation model of today's state is that of public-entrepreneurship, based on the ability to create and manage partnerships and complex inter-organisational networks involving both public and private organisations (Mendoza and Vernis, 2008). In the current globalised world where corporate actors wield a lot of control, the state has limited influence and needs the cooperation of the private sector and other non-government market based forces to develop a regulatory framework for corporate governance. Moreover in an increasingly complex and technically sophisticated age, governments lack the expertise and the information to know what to prescribe, and the means to detect when things are going wrong or enforce governance standards. A more cost effective approach for the state is to encourage corporate actors to agree to a common standard and regulate themselves. Yet market forces are not effective in building consensus amongst competitors or groups with divergent interests. Governments therefore may need to intervene to facilitate an industry led establishment of a formalised system of self-regulatory codes.

3.6 Gaps in the literature – the need for further research

The theoretical discussion on agency problems articulates the difficulty of current contractual governance mechanisms (Hill, 2006) to relieve agency problems. Market based mechanisms, such as the pay-for-performance model, are especially problematic during corporate collapses and global financial crises (Coffee, 2004, Gordon, 2002). The academic literature appears to be at a quandary as to where the thrust of regulation should be directed for better corporate governance. Sparse is the understanding of how state and self-regulation can be crafted to bring about behaviour based controls in corporate governance. Therefore the question of what approach is to be adopted in developing a regulatory framework that brings about changes in behaviour oriented self-regulation remains unanswered. Recent academic thinking, backed by empirical research, appears to suggest that appropriate regulation is not a choice of state regulation or self-regulation but a balance between the two approaches.

Kirkbride and Letza's (2004) research draws on the concept of 'collibration', conceived by Dunsire as an approach to managing tensions between opposing forces in a social arena through government intervention. Collibration can be defined as a social tension management technique between two or more opposing maximisers (Dunsire, 1993a, 1996). Collibration entails taking part in a balancing process to actively engage with, and allow interaction between social groupings for conflict management – usually mediated via government intervention designed for market manipulation instead of any strict external fiat on market activities (Kirkbride and Letza, 2004, p.89, Dunsire, 1993a). In this framework, what is important is not the weight of the regulation in one system but rather the effectiveness of its linkages in several levels – macro (law), intermediate (trade associations) and micro (firm) levels of corporate governance. Herein, a collibratory approach can assist in developing a mixed regulatory framework that comprises both state and self regulation, such that these become complementary to each other and facilitate better corporate governance.

However, apart from the aforementioned pioneering work of (Kirkbride and Letza, 2003, Kirkbride and Letza, 2004, Kirkbride et al., 2005, Letza et al., 2004) little is known about the salience of *collibration* as a framework of corporate governance. Given that this is a relatively new approach, there is little or no empirical testing of the effect of collibration in a real-world context. Particularly, the effects of mixed regulatory regimes are yet to be studied with respect to director and executive remuneration with the exception of studies conducted by (Lazzarini and Mello, 2001, Pirrong, 1995, Houthakker, 1982) which have examined the role of state regulation and self-regulation in derivative markets to determine the individual efficacy of both types of regulation. These authors urge further investigations be conducted into the complementarity or linkages between state and self regulation. The literature is also sparse on the use of the construct 'collibration'– plainly evident when one performs a full text search on electronic databases (see Appendix I).

This chapter raises the significance of exploring the process and techniques involved in developing a framework that brings about behaviour oriented reforms by strengthening the link between state regulation and market-based regulation. Drawing on the foregoing theoretical discussions it is proposed that in the market based economies of Western democracies, governments' approach to bringing about reforms in corporate governance will involve collibration rather than imposition of substantive compulsory standards which may weaken market forces. The development of a mixed regulatory regime through 'collibration' and the actors that play pivotal roles to perform this balancing action by the state are elaborated in depth in Chapter Four. As well, the role of a mixed regulatory regime in bringing about reforms in remuneration disclosure is explored to evaluate its effectiveness in the next chapter.

Chapter Four: Collibration as an alternative approach to regulation of corporate governance

4.1 Introduction

Executive remuneration has become a contentious issue, one that is often associated with, and believed to share some causal factors common in a series of corporate and financial collapses in the world (Hill, 2006, Hill and Yablon, 2002, Miller, 2004). The incidence of formidable agency problems associated with financial debacles raises fundamental questions about the adequacy of market-based regulatory mechanisms to facilitate good corporate governance (Clarke, 2004a, Hill, 2005). Governments have increasingly been pressured to intervene to ensure greater accountability and transparency, particularly in matters relating to executive remuneration governance (Chapple and Christensen, 2005, Kirkbride and Letza, 2004, Sheehan, 2009). This has led nation states, including Australia, to engineer certain behaviour- oriented regulatory reforms to improve disclosure of director and executive remuneration. In this context, it is relevant to ask what is the most effective means of regulation to tackle governance problems in a dynamic context of globalization (Levi-Faur, 2005). Some empirical studies propound that governance through self-regulatory codes is the best, as it is likely to contribute to greater shareholder value (Desmond, 2000). Financial theorists assert that any interference with current market-based regulatory mechanisms will have a distorting effect (Hart, 1995, Kirkbride and Letza, 2004, McSweeney, 2009, Sheehan, 2009).

However, to what extent can society rely on self-regulation? Should corporate entities be better governed through other means, for example, through statute (Kirkbride and Letza, 2004)? A more contemporary approach that takes a new direction proposes that these models are not mutually exclusive: a mix of state regulation and self-regulation may be more

appropriate to reflect the diverse and often competing interests that influence the social practice of corporate governance in the era of regulatory capitalism (Braithwaite, 2008, Cioffi, 2009, Levi-Faur, 2005).

This study was guided by the research question 'what approach should be adopted in developing a regulatory framework for corporate governance that aligns state regulation designed to protect shareholder interests with market oriented self-regulation?' To address the research question, this study draws on the concept of collibration.

In the context of corporate governance, the concept of collibration, conceived by Dunsire (1990, Dunsire, 1993a, Dunsire, 1993b), can be applied to develop a regulatory framework that reconciles tensions between opposing forces in the market – such as the principal and agent, as well as state regulation and market-based regulation.

This chapter builds on the views of Villiers and Boyle (2000), Kirkbride and Letza (2004), Hoffmann (1998) and others to illustrate that i) an effective approach to regulating corporate governance is not a choice between self-regulation or state regulation but a mix of the two, ii) state regulation must be effectively linked to and support self-regulatory codes of practices for its effective implementation, and iii) effective linkage between self-regulatory codes and state legislation can be achieved through coupling collibratory processes - namely formalising and canalising. Collibration is used here as an analytical lens to view the Australian government's approach to the development of a mix of state regulation and self-regulation and explain the stages and actors of such an approach, especially those relating to director and executive remuneration. Through its application in a Western democracy, namely, Australia, the contextual analysis reveals that collibration is a strategic and contemporary approach for regulating corporate governance that can improve disclosure behaviour of Australian corporations.

The chapter is arranged in the following order. Section 4.2 presents theoretical and empirical underpinnings to elucidate the concept of collibration as an alternative approach to address moral hazard agency conflict arising from information asymmetries. Section 4.3 illustrates the application of collibration and its relevant techniques, namely, canalising and formalising, for the development of a mixed regulatory regime to bring about better level of disclosure of director and executive remuneration in Australia. Section 4.4 concludes the discussion by summarising how collibration aligns state regulation with self-regulation and recommends testing the efficacy of collibration by determining the effect of mixed regulatory factors on disclosure behaviour of Australian firms.

4.2 Theoretical and empirical underpinnings

4.2.1 Agency problems representing corporate governance tensions

Agency theory asserts that managers as agents may pursue their own interests at the expense of shareholders (Jensen and Meckling, 1976, p.308). Agency conflict arises when an agent engages in a self-serving behaviour or shirks responsibilities by exploiting firm resources, including time for personal use. Lack of perfect contracting and observation of each and every action of agent by principal, permit agents to engage in regulatory non-compliance (Eisenhardt, 1989a, pp.59-60, Husted, 2007, p.181). In the presence of incomplete information, the principal cannot determine if the agent is acting in the best interests of the organisation (Eisenhardt, 1989a, Gomez-Mejia and Balkin, 1992, p.923). Information asymmetries, eventually, give rise to a situation of moral hazard.

In the case of incomplete information, the principal has two options. The principal can purchase information about the agent's behaviours and reward those behaviours. This requires the purchase of surveillance mechanisms such as cost accounting measures, budgeting systems, or additional layers of management. Alternatively, the principal can reward the

agent based on outcomes (for example, profitability). Such outcomes are surrogate measures for behaviours.

Amongst practices to improve information about agent behaviour, Fama and Jensen (1983b) describe the information role that boards of directors may play in controlling managerial behaviour. Similarly, a remuneration committee, responsible for developing a remuneration package for executives, may also play an important role in provision of information (Williamson, 1984, p.1216). The delegated responsibility of a remuneration committee is to design and review employment contracts and set remuneration. More importantly, it is set up to design an outcome-based remuneration scheme that can align the interests of agents with principals (Carson, 2002, p.6). Therefore, the presence of a remuneration committee can act as an important mechanism of corporate governance by which the board can set remuneration policies, and provide more information to shareholders in a transparent manner (Conyon and Peck, 1998). Besides information systems, agency theory proposes outcome oriented contracts, which align the preferences of agents with those of the principal because the rewards for both depend on the same actions. The challenge therefore is to adopt control mechanisms such as information systems, and reward schemes, such that individuals pursuing their own self-interest will also pursue the collective interest. The market's solution is to determine the optimal contract for the agent's service (Eisenhardt, 1989a).

When devising the optimal contract, the principal has to decide whether a behaviour-oriented contractual governance that focuses on *input controls* (the paternalistic approach) - e.g. salaries, hierarchical governance, information systems - is more efficient than an outcome-oriented contractual governance that focuses on *output control* (the laissez-faire approach) - e.g. commissions, stock options, transfer of property rights, capital markets for corporate control (Eisenhardt, 1989a, Oliver and Anderson, 1994). Principal-agent

researchers suggest that varying levels of outcome uncertainty, information and other such factors may affect the choice between behaviour-oriented and outcome-oriented contractual governance arrangements (Eisenhardt, 1989a). Uncertainty in the environment (for example, multiple competitors and government policies) raises the costs of outcome control. Organisations can compensate for outcome uncertainty by increasing information systems (for example, additional layers of management, improved accounting procedures and more frequent formal reports) or by social control (Husted, 2007).

Agency theorists would therefore argue that under conditions of high outcome uncertainties, a behaviour-oriented, rather than outcome-oriented contractual governance arrangements, would be more appropriate (Eisenhardt, 1989a, Husted, 2007). Such conditions are characteristic of an increasingly complex, globalized world, where financial markets are intertwined, and wherein performance outcomes in capital markets become increasingly uncertain. This may suggest that refocusing on self-regulatory practices that emphasize input controls or behaviour-oriented contractual governance may be helpful.

However, until recently, market-oriented contractual governance mechanisms which align the preferences of agents with those of the principal were very much in vogue because the rewards for both depend on the same actions in reducing conflicts of self-interest between principal and agents (Denis, 2001, Depken et al., 2005, Jensen and Meckling, 1976, Kay and Van Putten, 2007). It is believed that the rise of the market-based control mechanism was an outcome of government policies of public ownership of industries. Such public ownership led to an emphasis on ownership property rights rather than ownership responsibilities leading to speculative buying and selling with little attention focused on ensuring a system of accountability and transparency and the questioning of management (Bebchuk and Fried, 2003). Large institutional investors often holding controlling interests in firms were also reluctant to interfere with internal workings of firms and were only concerned with dividends

and returns. Indeed, the recent focus of shareholders on ownership rights rather than ownership-responsibility has led to the popularity of outcome-oriented contracts that are driven by performance in capital markets. This has come at the expense of input-control or behaviour-oriented contractual governance mechanisms (Kirkbride and Letza, 2003, Kirkbride and Letza, 2004).

The adoption of outcome-based contracts or pay-for-performance models have had unintended effects as argued by (Coffee, 2004, Gordon, 2002, Hill, 2005, Hill, 2006, Bebchuk and Fried, 2004). In Anglophone countries including Australia, it resulted in an enormous increase of equity based remuneration of company executives, but not necessarily improvement in performance as mentioned earlier (Cheffins, 2003). In fact, Bebchuk and Fried (2003) and Gordon (2002) contend that the pay-for-performance model itself has emerged as an agency problem. Also, Coffee (2004, pp.297-298) and Kahan and Rock (2010) observed that during the 1990s there was a reduction in the average job tenures of CEOs in the USA. During these short-term tenures, CEOs increased share prices through financial manipulations to generate huge cash from their options by treating companies as 'cash mines'. Furthermore, the movement of CEOs from one company to another exemplified the 'golden parachute or golden goodbye' phenomenon (Bebchuk and Fried, 2003, p.74). Researchers (Coffee, 2004, Gordon, 2002, Hill, 2005, Hill, 2006, Bebchuk and Fried, 2004) argue that the pay-for-performance model does not necessarily relate to actual corporate performance and it has itself resulted as an agency problem.

Therefore, two competing mechanisms pursued for corporate governance include *behaviour-oriented* controls through structure, hierarchies, salaries and *market-based* controls of corporate governance through performance and capital markets. An excessive emphasis on ownership rights dissuaded institutions from developing robust systems for behaviour-based contractual governance controls or checks for corporate governance. The last decade, starting

with the collapse of Enron and ending with global financial crisis, challenged the fundamentals of shareholder capitalism. In particular, the inadequacies of external market-based controls and risks associated with an over reliance on such a mechanism suggests a need to redress the imbalance between outcome-based and behaviour-based controls of corporate governance. This balance can be attained by making greater focus on establishing improved mechanisms for behaviour-based controls and self-policing (Sundaramurthy and Lewis, 2003, Himmelberg et al., 1999).

The above evidence indicates that market-based regulation is inadequate as a mechanism of corporate governance. As a result governments have intervened by shifting the equilibrium in the direction of behaviour-based control of corporate governance. For example, in the UK, for developing regulation for corporate governance, governments have intervened to facilitate the development of voluntary codes of practice by bringing together a diverse set of business groups. Such a move to promote self-regulation and self-policing has been based on expert opinion and a multitude of published studies, for instance the Cadbury Report, Greenbury Report and others. Similarly, in Australia, for developing state regulation for corporate governance, government has intervened in such a manner that this intervention has also facilitated the development of voluntary codes of practice by bringing together a diverse set of business groups.

Kirkbride and Letza (2004) suggest that development of regulation for corporate governance requires a shift away from the homeostatic approach of standard setting towards a holistic approach i.e. *collibration*. These authors highlight the need to consider the processes involved in developing regulation through collibratory techniques so as to strengthen the link between state based regulation and market-based regulation.

4.2.2 Collibration – an alternative approach to corporate governance

There is a well-appreciated conventional distinction between regulating markets and intervening in markets. Regulation involves for example, providing a framework of law to ensure keeping of contracts; or recognizing collective bargaining; or taking government action to avert or remedy 'market failure' by antitrust legislation. 'Intervening' in markets involves the government going in as a participant, for instance, using the government's large purchasing power to force down a price. A collibratory approach to government intervention does not fit in with either of these conventional approaches – since collibratory intervention does not aim to impose stringent standards, or remedy 'market failure' by eliminating the underlying source of risk (Dunsire, 1993a, Kirkbride and Letza, 2004). Instead collibration involves leaving the powerful market mechanisms as they are, but furthering government policy objectives by manipulating or tweaking existing market mechanisms representing social tensions (Dunsire, 1993a, Dunsire, 1993b).

Dunsire (1990, 1993a, 1993b, 1996) conceived of collibration in the 1990s as an approach to managing tensions between opposing forces within markets and other social arena through government intervention. Principal-agent, producer-consumer, employer-employee groups are examples of social groups with conflicting interests that may represent opposing forces. Drawing from 'co-libration' which means taking part in a balancing process, Dunsire coined the term collibration to refer to by government that involves fine tuning the balance between two or more opposing forces, in order to achieve a policy objective (Dunsire, 1993a, p.32). The government may intervene to privilege one of the social actors or handicap another, but not necessarily at each other's expense. Similarly, the intervention may involve facilitating greater communication and encouraging cooperation between conflicting interests. In adjusting the balance in the direction of its policy goal, Dunsire emphasizes the need to manage the tension between forces without destroying either force so as to avoid the

risk of tipping the balance too far and destabilize the situation. Therefore, collibration as delicate balancing act that entails a controlled, incremental shift rather than a radical shift from the existing balance or original position in the direction of the desired outcome. In developing the concept of collibration, Dunsire argued that although such an approach to managing tensions had been used by governments for a long time, there existed no established construct that encapsulates the characteristics of such an intervention.

Collibration is usually observed in traditional areas of continuing social antagonism such as corporate governance, industrial relations, markets or even the democratic political process where tensions exist between social actors with diverse and often conflicting interests and value positions such as principal and agents. According to Dunsire (1993a, pp.20-22) an example of collibration frequently observed in markets is the provision of remedial information to consumers to manage the tensions arising from asymmetry of information between opposing market forces – the producer and consumer. The state may intervene by directly supplying such information to consumers for example by publishing fuel economy performance data for different cars based on standard government tests. Alternatively the state may introduce formal or statutory requirements for disclosure of relevant information by the producer of goods or services. For instance in the food retail market, food requires contents labeling, or labeling specifying shelf-life on edible products. Similarly, there can be mandatory disclosure requirements for companies to disclose certain information in company reports to shareholders and investors (Dunsire, 1993a, pp.20-22). When information that is already available to the producer or firms is provided to the consumers, it improves their ability to make a more rational choice by allowing them to price the risk associated with the product or firm. However, such an intervention does not remove any risk that might be associated with the product or investment, nor does it remove a potentially risky product or business venture from the market. Thus such provision of information with remedial effects

qualifies as a collibration since it privileges consumers, but not at the expense of the producer or firm. It is the kind of intervention that represents an improvement over the original balance in the market, but one that does not destroy existing market forces. In contrast, state intervention that imposes a ban on a product or any business venture may considerably weaken or even destroy an existing market force (i.e. the producer or firm) and hence will not qualify as a collibration. Unlike collibration, such an intervention does not aim to fine tune an existing balance but aims to eliminate the risk.

Therefore, collibration *is a form of intervention by government*, designed to use the social energy created by the tension between two or more social groupings habitually locked in opposition to one another, to achieve a policy objective by altering the conditions of engagement without destroying the social tension (Dunsire, 1993a). *Altering the conditions of engagement* might involve either *privileging one* of the social actors or *handicapping another*, but not necessarily at each other's expense (Dunsire, 1993a).

4.2.3 Techniques of collibration

Collibration may be take three forms that differ in the process employed for achieving a policy objective – *canalising, biasing* and *formalising (Dunsire, 1993a, Kirkbride and Letza, 2004)*. Canalising refers to the process of intervening by altering the rules of engagement between opposing forces (Dunsire, 1993b, Dunsire, 1996, Kirkbride and Letza, 2004, Kirkbride et al., 2005). Canalising typically involves introducing new rules or changing existing rules to readjust the balance. Mandatory disclosure requirements are common in the food retail market and in financial services (Dunsire, 1993a, p.21). However, a law banning a hazardous product or an anti-trust legislation to protect consumers will not qualify as a collibration through canalising since such a regulation destroys the existing social tension by removing or destroying a market force. Regulation mandating disclosure of remedial

information to investors or consumers is an example of collibration through canalising (Dunsire, 1993a, p.21).

Biasing refers to the process of intervening by altering the existing dynamics of a social process (Dunsire, 1993a, Kirkbride and Letza, 2004). Examples of biasing include the government directly giving remedial information to consumers, or the selective imposition of taxes on certain commodities such as tobacco or alcohol to affect consumption patterns and discourage consumer spending on these goods thereby handicapping producers. Similarly, granting government loan guarantees to students by directly intervening in the money market to tip the balance in favour of students who would not have otherwise succeeded in meeting the banker's criteria of creditworthiness is an example of biasing.

Formalising refers to the process of intervening by facilitating the creation of discourse between opposing forces in a social arena characterized by discourse-less relationships so as to achieve a policy objective (Dunsire, 1993b, Dunsire, 1996, Kirkbride and Letza, 2004). Formalising may involve bringing together diverse professional bodies, business and other community groups for a specific purpose such as to build consensus or advance a project in which they hold a stake or share a common interest (Bardach and Kagan, 1982, Dunsire, 1993a). Through the process of formalising the government facilitates the creation of an organized bargaining forum that obliges the dominant forces to use rational argument rather than market clout and gives 'voice' to less substantial actors out of proportion to their market share.

Although collibration can be used for managing tensions in a social arena, it is important to note that a certain degree of tension between opposing forces or actors with divergent interests or value positions may be accepted as natural, and does not warrant the need for intervention by the state. Dunsire (1993a, p.33) highlights that in advanced industrialized economies where non-government market based institutions are well

developed, social tensions help to maintain a stable equilibrium, as opposing groups keep a check on the other's activities thereby playing an important self-policing role with little need for continuous input from the state. For example, both consumers and manufacturers or shareholders and corporations have associations to protect and represent their respective interests while keeping the other in check. The social energy created through natural tensions within social subsystems can be harnessed by the state for public benefit. Governments in many industrialized nations have therefore actively engaged in culturing peak associations and other non-government market based institutions to encourage such forms of governance.

Despite these informal mechanisms, conditions for collibratory intervention arise when there is a stand-off between opposing groups or the relative balance of power between these opposing interests is gradually eroding because of certain internal or environmental changes (Dunsire, 1993a, pp.24-34). Under such conditions the government may intervene via collibration to readjust the balance.

In the context of corporate governance, information asymmetry between principal and agent regarding executive remuneration or excessive payouts to directors may illustrate an impasse – a stand-off that cannot be resolved by market-based mechanisms alone - requiring a collibratory intervention. As often seen after corporate collapses, governments may respond to public pressure for greater transparency by canalising to mandate disclosure of executive remuneration. A typical example of this type of regulation is the Sarbanes Oxley Act 2002 which was introduced in response to a series of corporate collapses in the USA (Kirkbride et al., 2005). However in nation-states with well developed market based systems for corporate governance, such state-based regulation tends to be resisted by the corporate sector (Letza et al., 2004).

In the current globalised world where corporate actors wield substantial influence, the state needs to win the cooperation of the private sector and other non-government market

based forces to develop a more acceptable regulatory framework for corporate governance. In an increasingly complex and technically sophisticated age, governments, in the absence of cooperation from the private sector, may lack the information to know what to prescribe, and the means to detect when things are going wrong or enforce governance standards (Dunsire, 1993a, pp.24-25, Kirkbride and Letza, 2004). Moreover the state may be limited in its resources to monitor governance practices of private firms. A more cost effective approach for the state is to encourage corporate actors to agree to a common standard and develop a formalised system of self-regulation guided by voluntary codes of corporate governance (Dunsire, 1993a, pp.24-31, Kirkbride and Letza, 2004, Kirkbride et al., 2005). Such self-regulation is particularly important in guiding corporate governance practices adopted by firms. Yet market forces are not effective in building consensus amongst competitors or groups with divergent interests. Governments therefore may need to intervene via formalisation to encourage the necessary communication and cooperation across these divergent groups to facilitate an industry led establishment of a formalised system of self-regulatory codes (Dunsire, 1993a, pp.24-31, Kirkbride and Letza, 2004)

Although traditional studies in regulatory architecture suggest that state regulation and self-regulation are two competing governance mechanisms for corporate governance, they may in fact be designed to become complementary and mutually reinforcing. Villiers and Boyle (2000) suggest that effective regulation of corporate governance should not rely on the choice between self-regulation and state based regulation but should involve establishing an appropriate mix of both. For example, in the case of remuneration governance, whilst the state may legislate what information needs to be disclosed, industry is better equipped to guide remuneration practice for effective disclosure. Therefore, while remuneration disclosure is guided by state regulation, remuneration practice is guided by self-regulation (Sheehan, 2009).

As it stands, governance is a unique social process of interaction between 'institutions and actors' (Stoker, 1998, p.18) where formalised institutions, legal regulatory systems, government bodies, and professional associations all play an important role in developing norms, practices, and conventions, which guide performance standards (Deakin and Cook, 2000). Deakin and Cook (2000) emphasize that it is not only the existence of different tiers of regulation, but rather the effectiveness of linkages between the different tiers – macro (law), intermediate (for instance, trade associations) and micro (firm) levels of corporate governance, that yields an effective system of corporate governance. Thus collibration may be used to design state regulation so that it is aligned with self-regulation, so that the mixed framework is relevant and acceptable across the network of actors influencing corporate governance.

4.2.4 Research propositions

This study was guided by the research question what approach should be adopted for developing a regulatory framework for corporate governance, such that state regulation designed to protect shareholder interests is aligned with market oriented self-regulation. This study draws on the foregoing theoretical discussions to propose collibration as a contemporary approach to regulating corporate governance and test the following propositions:

First, in the market based economies of Western democracies, governments' approach to managing conflicts in corporate governance to restore investor confidence or maintain market credibility will involve collibration rather than imposition of substantive compulsory standards which may weaken market forces.

Second, by coupling formalisation and canalisation, collibration will enable complementing state regulation with self-regulation, two seemingly competing mechanisms, to establish a mixed regulatory framework for corporate governance.

Focusing on disclosure of director and executive remuneration, an important issue in corporate governance, the above predictions are tested by examining the Australian Government's intervention to improve remuneration disclosure in response to the public outcry in the wake of corporate collapses from 2001 onwards. More specifically in order to test the first and second predictions, the application of collibration through an in-depth qualitative analysis of events and processes, leading to the development of a mixed regulatory framework for corporate governance in Australia, is mapped. The nature of regulatory reform identifies these as collibratory interventions. The analysis of events presented below illustrates the application of collibration and its process in the Australian context to bring about better disclosure of director and executive remuneration.

4.3 Application of collibration to the development of regulation for corporate governance in Australia

4.3.1 Corporate collapses – a brief time line

Starting from 2001, Australia witnessed a series of corporate collapses in a number of industries including the demise of big corporations such as mining giants Centaur and Pasminco, HIH Insurance, the telecom giant One Tel, and the airlines company Ansett (Hill, 2005, Hill, 2006, Miller, 2004). The total damage of all these failures was more than $13 billion and a loss of at least 20,000 jobs (Kohler, 2001). A similar trend was observed in the US with the collapse of Enron which triggered the enactment of the Sarbanes Oxley Act 2002. Surprisingly, these collapses were not associated with any debt problems or failures of stock markets, which characterized previous corporate collapses.

Massive performance bonuses paid just before collapses to outgoing CEOs of National Australia Bank (Bolt, 2004), James Hardie Group (Charles, 2004) and One Tel (Hill, 2006, p.65) received much negative publicity and challenged the empirical validity of

the executive pay-for-performance model (Bebchuk and Fried, 2004, Bebchuk and Fried, 2003, Gordon, 2002, Hill, 2006). Information-asymmetries regarding remuneration between the principal and agent subverted the concept of interest alignment, and highlighted the imperfect functioning of the market for corporate control.

In the context of corporate collapses, disclosure of director and executive remuneration has become a pertinent issue. Eisenhardt (1988, p.64) argues that good quality information systems can control for managerial opportunism in regard to performance-contingent pay. Disclosure of director and executive remuneration can reduce the information asymmetry by addressing structural and procedural problems of executive remuneration (Ferrarini and Moloney, 2004, p.300). For instance, a detailed and better level of disclosure of director and executive remuneration can equip the principal to monitor the pay-setting process and verify that either executive remuneration of the agent is effectively aligned with the wealth maximisation of the principal or not (Thévenoz and Bahar, 2007, p.19). A detailed disclosure assists market stakeholders to assess risk and make effective decisions thereby strengthening the competitiveness of markets (Houthakker, 1982, p.483). With respect to corporate disclosure, it is widely acknowledged that without regulation, capital markets cannot function properly due to information asymmetry problems (Cooper and Keim, 1983). This aspect is also evident from the failure of markets or outcome-based contractual governance arrangements in producing appropriate disclosure about the pay-for-performance model as discussed earlier. Indeed, if market forces cannot fairly distribute information among key market players, it could easily result in market failures (Beaver, 1998).

4.3.2 CLERP 9: An illustration of canalisation

The Australian government's commitment to improving disclosure of executive remuneration dates back to mandatory provisions in Victoria in 1938. Heavy criticisms from business organizations however thwarted these initiatives and led to several short-lived

disclosure regimes since that time (Hill, 1996). Prior to CLERP 9 Act of 2004, Company Law Review (CLR) Act 1998 introduced section 300 (A) which demanded that the listed companies should disclose three aspects about director and executive remuneration: a) the broad policy regarding emoluments of board members and senior executives of Australian companies; (b) the link between the company remuneration policy and its performance; and (c) remuneration details of each director and the five highest paid executives of the company. The CLR Act 1998 also came under heavy criticism because of the substantial confusion surrounding the interpretation of the 'emoluments' term (Clarkson et al., 2006, Quinn, 1999). This compelled the Australian Securities and Investments Commission (ASIC) to issue an interim period practice note – PN68 - in November 1998 for clarifying the CLR Act 1998. The stated purpose of PN 68 was to clarify some of the accounting-related requirements of the CLR Act 1998. PN 68 highlighted that new provisions of this law should be interpreted in accordance to overall goal of this legislation and too much focus should not be given to words such as 'emoluments' 'broad versus board' and 'officers' (Clarkson et al., 2006).

A program of sequential reforms to CLR Act 1998 was implemented under the auspices of the Corporate Law Economic Reform Program (CLERP) to further improve the regulatory framework. Central to this program were principles of market freedom, investor protection and improved level of disclosure of relevant information to the market. CLERP 9, the last of these reforms, was enacted as CLERP Act of 2004 replacing CLR Act 1998 (Banks et al., 2010, pp.128-130). CLERP 9 was a very broad ranging act which addressed a wide range of governance issues including executive remuneration. Besides disclosure reform, it included an array of reforms relating to audit practices (du Plessis et al., 2005, Farrar, 2005, McConvill, 2004). Although executive remuneration provisions were inserted somewhat late in CLERP Act 2004 (McConvill, 2004), the government had devoted attention to ensure that the legislation had industry and public support. An extensive consultative

process regarding the amendments of section 300A was facilitated by the Joint Parliamentary Committee on Corporations and Financial Services (Sheehan, 2009). This involved public hearings and submissions from an array of registered business associations, audit firms, accounting and legal professional associations, business and industry based associations including the Business Council of Australia (BCA) and other stakeholders.

CLERP 9, which was undertaken in response to calls for curtailment of excessive executive pay in Australia to restore public confidence (Chapple and Christensen, 2005), aimed to strengthen the existing disclosure regime by promoting transparency, accountability and shareholder activism (Banks et al., 2010, p.130, Sheehan, 2009, p.275). Although mandatory disclosure of executive remuneration was a part of the CLR Act 1998, the subsequent reforms embodied in the CLERP Act 2004 under section 300A (1), extended and finetuned previous disclosure regimes. This was achieved, for example, by expanding the disclosure requirements for director and executive remuneration to include group executives in section 300A (1) (c). A detailed disclosure of performance conditions for performance based pay and the rationale for selection of criteria were also necessary to explain the company's pay-for-performance model. A significant departure from the CLR Act 1998 was the introduction in CLERP 9 of an annual shareholder non-binding advisory vote on the executive remuneration report at the annual general meeting (AGM). In addition, shareholders were allowed a reasonable question time to discuss the remuneration report with the board (Chapple and Christensen, 2005, Sheehan, 2009). The role of the regulatory institution – ASIC - was strengthened to administer and enforce the Corporations Act 2004 (McConvill, 2004, p.25).

Designed as an incremental step towards improving the bargaining position of shareholders, CLERP 9, with its mandate for improving the existing requirements for provision of remedial information and an annual non-binding shareholder vote, involved an

altering of the rules of engagement between opposing social forces to fine tune the balance in favour of shareholders. CLERP 9 was therefore an example of canalising, a form of collibration. As a collibratory intervention, the provision of remedial information via CLERP 9 did not involve imposition of an external standard such a salary cap or policy prescription to determine executive remuneration. CLERP 9 assisted shareholders or markets in general to price the risk associated with the given agent, and facilitated making better informed decisions regarding future transactions with the company. However, this is achieved *without* removing the risk since CLERP 9 did not interfere with the existing market-based mechanism for determining remuneration.

Similarly, the non-binding vote provision represented a controlled shift of the position of equilibrium towards the shareholder by increasing their participation in the remuneration setting process and provided them with the opportunity to raise their concerns about director and executive remuneration via an advisory vote – a 'say on pay' phenomenon. Although the vote is non-binding it was not a mere formality. If the results of the vote suggested that shareholders disagreed with the level of remuneration paid to directors, the boards would be under significant pressure to reduce those payments to a level more in line with shareholder expectations (Chapple and Christensen, 2005, p.266 and 276). Yet the fact that the vote was non-binding and the control of the remuneration package remained with the board confirmed that even with respect to the shareholder vote, CLERP 9 was a collibratory intervention that was designed to improve the bargaining position of the shareholder without destroying the existing market-based mechanisms for setting remuneration. In essence, as a collibratory intervention it allowed managing opposing forces without destroying the existing tension between them. In this way, the post crisis reforms enabled the Australian state to improve corporate disclosure regime to restore investor confidence and at the same time supported existing market oriented self-regulatory practices preferred by corporations.

4.3.3 Creation of discourse under self-regulatory codes: An illustration of formalisation

In response to the various corporate collapses in Australia another reform introduced shortly before CLERP 9 involved self-regulation as evident from Table 4.1. Remuneration disclosure even when mandated by law needs to be supported by remuneration practices adopted by firms. The law typically determines what information is to be disclosed but does not prescribe what practices are to be adopted to support disclosure (Sheehan, 2009). Although industry may recommend best practices for effective disclosure, in the absence of a formalised system of self-regulation, where firms are not obliged to adopt recommended practices, disclosure may be less than desired. In such a situation, it is difficult for the state to monitor or obtain reliable information regarding firm situation or their reasons for failing to implement recommended practices.

Since the early 1990s, different peak associations in Australia had attempted to publish corporate governance codes for best practices. However, these market forces had failed to unite the conflicting interests to consolidate and formalise the codes of best practice. To facilitate the development of a formal framework for self-regulation, the state intervened to support the Australian Securities Exchange (ASX) in leading the development of a formal framework for self-regulation with industry participation. The ASX played a critical role by establishing the Corporate Governance Council, represented by 21 different business, investment, and shareholder associations in 2002, and providing them with a common platform to communicate, develop, and enforce corporate governance standards for a common purpose – self-regulation. The Corporate Governance Council of the ASX issued the first edition of the 'Principles of Good Corporate Governance Practice and Best Practice Recommendations' in 2003 – with the aim of providing a practical guide for listed companies, their investors, and the wider Australian community (ASX, 2008).

Representatives with disparate backgrounds including the Australian shareholders' association, the BCA and the Australian Institute of Company Directors contributed to the key advisory guidelines and recommended best practices for corporate governance. Reflecting the diversity of listed companies, a cornerstone of the ASX Corporate Governance Council's principles and recommendations is flexibility balanced with accountability (Banks et al., 2010, pp.134-135). In relation to remuneration practices the ASX guidelines emphasized better disclosure of executive remuneration and structural changes in company boards to ensure better governance and transparency (ASX, 2003).

The ASX best practices recommended institutionalizing the presence of the remuneration committee on the company board and having a majority of non-executive directors on the remuneration committee of ASX 300 companies. It is imperative to note that the ASX recommended best practices were not legally binding so that firms could adapt or follow these as per their circumstances. However, in the case of non-compliance, ASX rules required that listed companies provide an explanation for their lack of compliance, addressing the 'if not' and 'why not' aspects of the recommended remuneration governance mechanisms (Banks et al., 2010, p.135). These guidelines thus encouraged flexibility along with transparency. The ASX general guidelines for companies to 'respect the rights of shareholders' and 'remunerate fairly and responsibly' influenced the Government's subsequent design and formulation of post-crisis reforms, namely CLERP 9 (Chapple and Christensen, 2005, p.5 and 14).

ASIC was also involved in the educational role of good governance by engaging the ASX. Both these institutions signed a Memorandum of Understanding in 2004 regarding information sharing and enforcing the Corporations Act on a mutual basis (ASIC and ASX, 2004). This document became publicly available, and this Memorandum was to be used for the implementation of the CLERP Act 2004 (ASIC and ASX, 2004).

Thus through formalising, the Government facilitated the creation of an organized forum led by ASX which enabled the creation of discourse amongst diverse actors with conflicting interests, to develop a practical framework for self-regulation which had acceptance both in industry and shareholder groups. Through such a collibratory intervention, forces strongly opposed to each other – the Australian Shareholder's Association, which demanded greater participation in the remuneration setting process, and the BCA, a dominant market force which strongly opposed it (Hughes, 2003), could be brought together to jointly participate in developing the ASX best practice codes.

Overall, through the coupling of formalising and canalising, the Government was able to achieve a more socially acceptable framework for corporate governance that comprised a mix of self-regulation and state regulation. Such a collibratory approach towards managing the tensions between proponents of state regulation and market-based regulation reduced the resistance from business to CLERP 9. Thus CLERP 9 and ASX Principles 2003, that were introduced within a relatively short time frame in response to the various corporate collapses in Australia, were two distinct forms of regulation that complemented each other to provide a framework for mixed regulation.

Table 4.1 Timeline of regulatory initiatives in Australia

Years	Regulatory initiatives
1938 – 1986	Section 127 of the Companies Act 1938 (Victoria) for the first time demanded disclosure of aggregate remuneration (in bands) of all executives earning over A$100,000.
1986 – 1987	A set of stringent disclosure rules were enacted through clauses 24 and 28, Schedule 7 of the Companies (NSW) Code introduced by SR No 247 of 1986. According to this legislation the firms were asked to disclose remuneration information by identifying individual directors and the five highest paid executives. This robust disclosure regime proved to be short-lived and faced heavy criticism from the business organizations and eventually replaced by the anonymous band system in 1987.
October 1987 – 1998	Listed companies were solicited through Companies Regulations (amendment) No 206 of 1987 to disclose the total yearly executive remuneration over A$100,000 including both cash and non-cash based emoluments in A$10,000 bands, without identifying the executives. Remuneration of directors had to be disclosed in A$10,000 bands.
1st July 1998 – 30th June 2004	Company Law Review Act 1998 introduced section 300 (A) which solicited the listed companies to disclose the following three aspects about director and executive remuneration: a) the broad policy regarding the emolument nature and amount of board members and senior executives of the company; (b) discussion of the link between the company remuneration policy and its performance; and (c) remuneration details of each director and five executives of company who receive the highest salaries.
2002 – 2007	The Australian Stock Exchange (ASX) established the Corporate Governance Council representing 21 different market-based peak professional and business associations of Australia. This council developed and introduced 'Principles of Good Corporate Governance Practice and Best Practice Recommendations' in 2003 regarding audit practices, continuous disclosure, board structure, remuneration disclosure of director and executive remuneration and recognizing the legitimate stakeholder rights. These codes are to be followed on a voluntary basis and in case of non-compliance the explanation must be given.
30th June 2003 – to date	The Australian Securities and Investments Commission issued guidelines for placing reliable valuation on options that are included in the remuneration package. The firms can choose from a variety of valuation methods.
30th June 2004 – to date	CLERP Act 2004 was enacted demanding a wide ranging disclosure of director and executive remuneration through the extension and amendment of the existing section 300 (A). The modified section solicits information about the remuneration of all executive and non-executive directors as well as the five highest paid executives of the parent company and respective subsidiaries. A variety of subsections were included in section 300 (A) through CLERP 9, which asked companies to highlight the link between remuneration and firm performance particularly in regards to firm profitability, total shareholder return, justification and assessment of the performance benchmarks for the

	previous and future financial years. This section further seeks systematic and segmented information about director and executive remuneration which was made possible by the Australian Accounting Standards Board by introducing AASB 1046 and AASB 124 respectively. It is imperative to note that earlier recommended stringent and detailed AASB 1046 was replaced by a user-friendly AASB 124. All this information should be formally be supplied in the remuneration report (a legitimate component of directors' report) requiring an advisory vote of shareholders during the annual general meeting. Sources: (Banks et al., 2010, Hill, 1996)

4.4 Summary

The incidence of widespread corporate collapses and the recent global financial crisis has called for greater transparency and better protection of investors through state regulation of corporate governance. However corporate governance, being a social practice that is shaped by diverse interests, calls for flexible approach to its regulation, one that comprises a mix of both state regulation and self-regulation. The study findings demonstrate that state-regulation alone is inadequate to address remuneration governance problems. The event analysis of the application of collibration in Australia demonstrates that collibration can be an effective tool to develop a regulatory framework for corporate governance that aligns state regulation designed to protect shareholder interests with market oriented self-regulation. The empirical evidence presented in the Australian milieu shows how collibration was adopted by the Australian government to align state regulation (CLERP 9) with self-regulation (ASX Corporate Governance Principles). In doing so, the Australian state has coupled two collibratory techniques namely canalising and formalising to develop mixed-regulatory regime.

The results of our empirical analysis suggest that under mixed regulation, a formalised system of self-regulation (ASX Principles 2003) facilitated the implementation of recommended remuneration practices, such as establishing a remuneration committee, to support improved disclosure mandated by legislative reform (CLERP Act 2004). This study therefore demonstrates that collibration can align state regulation with market-based self regulation, two seemingly competing mechanisms, so as to bring about behaviour oriented controls. Thus collibration can be used as an effective approach to establish a framework for regulation that it is able to accommodate the conflicting interests of opposing forces that influence the social practice of corporate governance.

A useful contribution of this study is that through an in-depth examination into the stages and actors of the collibratory intervention involving the balancing of tension between conflicting forces; it provides insights for developing an effective regulatory framework which has greater acceptance in both industry and the investor community. Another important implication of this study is the significance of priming the social arena through formalising by active engagement of diverse market forces prior to introducing a state based legislation. Priming appears to have facilitated implementation of CLERP 9 and achieve better disclosure outcomes in contrast to earlier legislations such as CLR Act 1998, which was not preceded by such an extensive consultative process. These findings closely echo, views expressed in other studies, that an extensive consultative process in the making of CLERP 9 ensured greater effectiveness in its implementation and the alignment of regulation with market and investor demands (Sheehan, 2009).

Collibration presents a contemporary approach that is relevant for the emerging politics of corporate governance in the new world of globalization (Braithwaite, 2008, Levi-Faur, 2005). Although this research was conducted in Australia, the findings have applicability in other capitalist economies which hold protection of the rights of owners and shareholders as an important agency issue. This study therefore sheds light on the applicability of collibration as an effective approach for providing an optimal governance framework for modern corporations in market economies. One of the first applications of such a collibratory approach was observed in Britain which enacted the Directors' Remuneration Report Regulations, 2002.

Research on practical applications of collibration, so far a conceptual approach to understanding corporate governance regulation, is valuable since it sets a fresh new agenda for future studies in the area. The evidence presented adds value to the emerging body of knowledge in this area. Moreover, the Australian evidence presented acts as a reference point

for cross-country comparative studies which are becoming increasingly important in the current climate of globalization of capital markets.

Chapter Five examines the effectiveness of collibration by examining the relationships between firm level remuneration practices and disclosure level of director and executive remuneration in the absence and presence of a mixed regulatory regime.

Chapter Five: Mixed regulation and disclosure level of director and executive remuneration in Australia

5.1 Introduction

The objective of this chapter is to examine the effect of mixed regulation, an outcome of collibration, on disclosure behaviour in Australian companies, and identify the key determinants of disclosure levels before and after the establishment of such a regulatory mix.

The research hypothesis tested in this chapter is that a mixed regulatory framework will be more effective than state based regulation alone in improving transparency and implementation of recommended practices to support corporate governance. Using univariate and multivariate analyses, disclosure levels and the contribution of self-regulatory elements of the best practice to disclosure of information are compared before and after the introduction of mixed regulation.

The results demonstrate that disclosure levels are significantly higher after the introduction of mixed regulation. After controlling for firm specific characteristics, the improvement in corporate disclosure is primarily driven by the implementation of recommended self-regulatory practices.

The chapter is arranged in the following order. Section 5.2 presents the conceptual and empirical underpinnings of a mixed regulatory regime. The research hypotheses and conceptual model are discussed in Section 5.3. Section 5.3 also gives details about the dependent variable – disclosure index; sampling process; definitions of research variables and empirical model. Section 5.4 presents the results and findings of the univariate and multivariate analyses performed to test the proposed hypotheses. Section 5.5 concludes this chapter by summarising the key aspects of mixed regulatory regime for addressing agency problems.

5.2 Conceptual and empirical underpinnings

5.2.1 The imperfect functioning of market-based regulations: Pay-for-performance mechanism

Agency theory asserts that managers as agents may pursue their own interests at the expense of shareholders (Jensen and Meckling, 1976, p.308). Agency conflict arises when an agent engages in a self-serving behaviour or shirks responsibilities by exploiting firm resources, including time for personal use. In the presence of incomplete information, the principal cannot determine if the agent is acting in the best interests of the organization (Eisenhardt, 1989a, Gomez-Mejia and Balkin, 1992, p.923). For interest alignment between the principal and agent, a pay-for-performance model can be used. However, empirical evidence illustrates that pay-for-performance models have unintended effects (Coffee, 2004, Gordon, 2002, Hill, 2005, Hill, 2006, Bebchuk and Fried, 2004). In fact, Bebchuk and Fried (2003) and Gordon (2002) contend that the pay-for-performance model itself has emerged as an agency problem.

The debate regarding the empirical validity of interest alignment through the pay-for-performance model came to a head in the wake of the corporate collapses, market failures and global financial crisis in the Anglophone countries, where firms were making losses in billions, yet executives were being paid bonuses in millions. The presence of information asymmetries and the inefficiencies of the pay-for-performance model confirm that modern corporations cannot solely rely on outcome-based or market-based governance mechanisms (Kirkbride and Letza, 2004, p.86). Agency theorists contend that investments in behaviour based controls, namely information systems, can curb agent opportunism by keeping the principal informed about what the agent is actually doing. A complete and detailed disclosure of director and executive remuneration, if available, can help the principal to monitor the pay-setting process and verify whether agent remuneration is effectively aligned with its own

interests (Thévenoz and Bahar, 2007, p.19). Ex post disclosure of performance based remuneration can empower the principal to price the risk, and decide whether to continue business with a controversial fiduciary in future. In other words, disclosure of remuneration information can reduce the incidence of moral hazard problems in a principal-agent relationship, and make the pay-for-performance model work more effectively.

Modern corporations thus require additional corporate governance control systems. The failure of outcome-based mechanisms calls for viable alternatives, namely behaviour-oriented controls, to address moral hazard agency problems.

5.2.2 Application of collibration to the development of mixed regulation

Although traditional studies in regulatory architecture suggest that state regulation and self-regulation are two competing governance mechanisms, they may in fact be designed to become complementary and mutually reinforcing to bring about behaviour oriented reforms. Villiers and Boyle (2000) suggest that an appropriate mix of external, state regulation and internal self-regulation is necessary for effective corporate governance. For instance, in the case of remuneration governance, the state may legislate what information needs to be disclosed; however, it is industry that is better equipped to guide behaviour-oriented remuneration practice for effective disclosure. Therefore, while remuneration disclosure is guided by state regulation, remuneration practice is guided by self-regulation (Sheehan, 2009). Herein, collibration may be used to design a mixed regulation so that state regulation is aligned with self-regulation making the regulatory framework more relevant and acceptable across the network of actors influencing corporate governance. Such a change can be observed in Australia that has deployed collibration to engineer a mixed regulatory regime.

5.2.2.1State regulation

As a pure form of state regulation, the CLR Act introduced in 1998 demanded that listed companies should disclose about director and executive remuneration. The CLR Act 1998 however came under heavy criticism because of the substantial confusion surrounding the terms of reference (Clarkson et al., 2006, Quinn, 1999). To remedy this failure, the CLERP Act of 2004 was introduced, expanding the disclosure requirements for director and executive remuneration to include among other things, a detailed disclosure of performance conditions for performance based pay. CLERP 9 improved the existing requirements in favour of shareholders by requiring the provision of remedial information and introducing an annual non-binding shareholder vote. The provision of remedial information via CLERP 9 represented a controlled shift of the position of equilibrium towards the shareholder by increasing their participation in the remuneration setting process and provided them with the opportunity to voice their concerns about director and executive remuneration via an advisory vote. Therefore, CLERP 9 was a collibratory state intervention that was designed to improve the bargaining position of the shareholder without destroying the existing market-based mechanisms for setting remuneration.

5.2.2.2Self-regulation

Alongside CLERP 9, to facilitate the development of a formal framework for self-regulation, the state supported the Australian Securities Exchange (ASX) with industry participation by establishing the Corporate Governance Council in 2002. This provided a common platform to communicate, develop, and enforce corporate governance standards for a common purpose – self-regulation.

The ASX guidelines emphasized better disclosure of executive remuneration and structural changes in company boards to ensure better governance and transparency (ASX, 2003). The ASX recommended best practices were not legally binding so that firms could

adapt or follow these as per their circumstances, with those failing to comply then required to provide an explanation for their lack of compliance (Banks et al., 2010, p.135). Thus through collibration, the Government facilitated the creation of an organized forum led by ASX to develop a practical framework for self-regulation which had acceptance both in industry and shareholder groups. The ASX Principles and self-regulatory codes of practice, achieved through formalising, guided the design of the subsequent state regulation embodied in CLERP 9 – enabling state regulation to be linked to self-regulation and resulting in a mixed regulation.

Overall, through collibration, the Government was able to introduce a mixed regulatory framework comprising state regulation and self-regulation. CLERP 9 and ASX Corporate Governance Principles 2003, which were introduced within a relatively short time frame in response to the various corporate collapses in Australia, were thus two distinct forms of regulation that complemented each other.

5.3 Effect of a mixed regulatory framework on corporate governance in Australia: An outcome of collibration

To assess the impact of the mixed regulation on disclosure behaviour of Australian companies, an empirical study using a pre and post research design was conducted to determine whether or not the shift from a state-based regulation such as the CLR Act 1998 to a regime of mixed regulation improved remuneration disclosure and its relationship with governance practice. A relationship depicting recommended best practices and other plausible determinants of the level of disclosure practices in Australian corporations was modelled for before (1997 and 2002) and after (2006) mixed regulation. In 1997 and 2002 state regulation alone was in force whilst in 2006 a mixed regulation (CLERP 9 and ASX code) guided remuneration disclosure. A difference in the relationship between remuneration practice adopted by firms and their level of disclosure under these two systems of regulation

was predicted. Using univariate and multivariate analyses, this study compared disclosure level of director and executive remuneration and identified the key determinants of disclosure index before and after the implementation of the mixed regulatory framework, respectively.

5.3.1 Factors influencing disclosure level – independent variables

While the disclosure level of director and executive remuneration (the dependent variable) for a given year can be influenced by several factors (the independent variables), this research focused on a set of internationally accepted best practices that overlapped with the ASX Guidelines (2003) which had been shown in previous studies to be associated with corporate disclosure (Clarkson et al., 2006, Liu and Taylor, 2008, Nelson et al., 2010). Independent variables of this study included recommended self-regulatory best practices – the presence of a remuneration committee on company boards, separation of the roles of CEO and chairman, presence of CEO on the remuneration committee, number of female directors on remuneration committee and presence of remuneration consultant.

This study also included control variables that relate to firm-specific characteristics such as BCA membership status, firm profitability level, foreign listing status, auditor type, listed age of the firm, firm reputation, growth potential, leverage and industry type, which are known to be associated with disclosure levels (please see Ahmed and Courtis, 1999, Ahmed and Nicholls, 1994, Cerf, 1961, Courtis, 1979, Firth, 1979, Gelb, 2002, Owusu-Ansah and Yeoh, 2005). By having control variables, the net effect of the independent (explanatory) variables could be uniquely determined when other variables are also known to have an effect. Having controls also tests for spurious relationships between the dependent and independent variables and for confounding effects. While deriving the hypotheses, this study focused on the following plausible factors most likely to impact on disclosure behaviour:

5.3.1.1Remuneration committee

The presence of a remuneration committee can provide a powerful mechanism for a governance framework, within which the board can set remuneration policies, and align shareholder interests in a more transparent manner (Conyon and Peck, 1998, p.148). The delegated responsibility of a remuneration committee is to design and review employment contracts, set remuneration, and more importantly to observe the interest alignment between executives and shareholders (Carson, 2002, p.6). This governance mechanism can also force the board and executives to be more transparent about their remuneration policies (Liu and Taylor, 2008, p.64).

A remuneration committee can therefore act as a behaviour-oriented governance arrangement by which the board can set remuneration policies in order to align shareholder interests in a more transparent manner (Conyon and Peck, 1998, p.148). Uzun et al. (2004) argues that the presence of a remuneration committee on the company board is positively associated with decreased likelihood of fraud. This mechanism can influence the board and executives to provide better information about their remuneration policies (Liu and Taylor, 2008, p.64). Consequently, this influence can lead towards better disclosure level of director and executive remuneration as proposed in the following hypothesis H_1.

H_1: Disclosure level of director and executive remuneration will be positively associated with the presence of the remuneration committee on the company board.

5.3.1.2Board independence through role separation between CEO and chairperson

Role separation between chairperson and CEO can enhance the effectiveness and independence of company boards (Jensen, 1993, p.866). Usually, the firm CEO dominates the organisation's decision processes. Hence the presence of the CEO as company chairperson can compromise the level of independence of the company board. Yermack

(1996, p.198) suggested that high levesl of agency problems can be caused due to CEO role duality. In case of role duality, the monitoring activity as one of the prime functions of the company board can be compromised when the flow of information is controlled by the insider (CEO) to the outsiders (Williamson, 1984, Yermack, 1996). This information control can lead to opportunistic behaviour by the agent resulting in a lower level of information disclosure if it is in the interest of management. Additionally, CEO role duality can lead towards a low level of transparency due to increased possibilities of financial manipulations (Dechow et al., 1996). Empirical studies by (Bassett et al., 2007, Forker, 1992) found that there is a positive and significant association between the level of corporate disclosure and role separation between CEO and chairperson. Therefore, CEO role duality can impact the level of remuneration disclosure. Hypothesis H_2 proposes a positive association between the separation of the roles of CEO and chairperson and disclosure level of director and executive remuneration.

H_2: Disclosure level of director and executive remuneration is positively associated with the separation of roles of CEO and chairperson.

5.3.1.3Independence of remuneration committee

Another important governance mechanism is the practice of ensuring that a remuneration committee is able to exercise independent judgment regarding executive remuneration and incentive policies. Fama and Jensen (1983b, p.315) argue that inside directors or stewards will be less inclined to act as effective monitors than will non-executive directors who have various other outside directorships. Outside directors are found to be more vigilant than internal directors and this phenomenon can reduce the chances of financial misstatements and frauds (Dechow et al., 1996, Sharma, 2004). In conflictual situations, outside directors tend to act as better monitors due to their desire to establish themselves as decision experts, which will boost their reputation. Studies by (Chen and Jaggi, 2000, Cheng

and Courtenay, 2006, Huafang and Jianguo, 2007) examined the role of non-executive directors by proposing a positive association with the level of corporate disclosure. Drawing of this argument, this study proposes a negative association between the presence of the CEO on the remuneration committee and disclosure level of director and executive remuneration in hypothesis H_3.

H_3: Disclosure level of director and executive remuneration will be negatively associated with the presence of the CEO on the remuneration committee.

5.3.1.4Gender diversity of remuneration committee

The level of gender diversity of a remuneration committee can be a significant indicator of the independence of the remuneration committee. Gender diversity on a company board can have a number of positive effects. It can increase the board's independence (Carter et al., 2010, Carter et al., 2003). It can revive interest in the board's activities in general, and in particular, in its monitoring activities. Adamsa and Ferreirab (2009) found that women board members in the USA have a better attendance record than their male counterparts, and that more gender-diverse boards assign greater resources to monitoring activities. Fondas (2000) argues that the presence of women directors can potentially help the board fulfil its strategic role. With current shortages of talented directors, Burke (2000a) notes that the continuing reliance on male CEOs for board members is not practical Burke (2000b) also notes women's symbolic value both inside and outside the organisation, linking the firm with other constituencies. Similarly, Selby (2000) observes that by having women board members, top US firms can generate a 'questioning culture'. Bilimoria and Wheeler (2000) see women directors as champions for change because they tend to be younger than their male counterparts and are open to relatively newer ideas and approaches to doing business. Bilimoria and Wheeler (2000) and Mattis (2000) also state that women directors help foster competitive advantage by dealing effectively with diversity in labour and product markets.

Therefore, this study examines the relationship between the level of gender diversity of remuneration committee, denoted by the number of female board members, and disclosure level of director and executive remuneration, and argues a positive correlation between them.

H_4: Disclosure level of director and executive remuneration will be positively associated with the number of female directors on remuneration committee.

5.3.1.5Presence of remuneration consultants

Public companies usually deploy remuneration consultants to furnish advice on the pay-setting process of directors and executives (Bebchuk et al., 2002, p.789). Remuneration consultants provide expert opinions on the design of remuneration packages which are based upon surveys and industry data of remuneration and these sources of information are not usually shared among companies. Therefore, the use of a remuneration consultant can allow firms to offer a competitive pay package and improve retention of the required talent pool. Even so, the recruitment process and reporting arrangements of a remuneration consultant in a firm can be subverted (Bebchuk et al., 2002, Conyon et al., 2009, Voulgaris et al., 2010). Executives can extract rents in the form of excessive remuneration by exploiting their power for hiring and retaining the consultants, who can return the favour by camouflaging excessive salaries, (Bebchuk et al., 2002, p.791, Voulgaris et al., 2010, p.2). The camouflaging can be performed by designing and conducting remuneration surveys which can make the case for higher salaries (Bebchuk et al., 2002, p.790). Empirical evidence indicates that CEO pay including cash advances is generally greater in those firms which use remuneration consultant (Conyon et al., 2009) Voulgaris, Stathopoulos and Walker (2010). These authors further argue that this positive association mainly stems from the increase of equity based remuneration. Hence there is a potential for rent extraction on the part of executives by using remuneration consultants, and for camouflaging this act by suppression of disclosure information. This study therefore predicts a negative association between disclosure level of

director and executive remuneration and the presence of remuneration consultants in hypothesis H_5.

H_5: Disclosure level of director and executive remuneration will be negatively related with the presence of remuneration consultants.

5.3.1.6Firm-specific characteristics – control variables

The control variables included in this study are BCA membership status, firm profitability level, foreign listing status, auditor type, listed age of the firm, firm reputation, growth potential, leverage and industry type, discussed next.

BCA membership: The BCA – an association of CEOs of leading corporations of Australia who participated in the ASX standard setting process – was strongly opposed to CLERP 9. The members of the BCA developed a submission which raised serious concerns over the non-binding vote by shareholders and disclosure component of CLERP 9 Bill 2003 (BCA, 2003b). Hence, BCA affiliation is expected to be negatively associated with disclosure.

Firm profitability: Cerf (1961) argues that a profitable entity will be inclined to disclose better information to strengthen their current positions and justify performance-based remuneration schemes. Equally, poor performance, particularly a weak financial condition, can also lead towards increased information disclosure (Camfferman and Cooke, 2002, p.11). In this situation, a detailed disclosure can allay fears and inform shareholders that appropriate actions are being taken by the management justifying their positions and perks. This study used return on assets (ROA) and earnings per share (EPS) as two proxies of firm profitability.

Foreign stock exchange listing: The firms which opt to list on foreign stock exchanges come under increased pressure to respond to a variety of laws and stock exchange rules. Cross-listed firms disclose more information in their reports in order to fulfil requirements of different exchanges (Ahmed and Courtis, 1999, Cooke, 1992, Firth, 1979, Wallace and

Naser, 1995). Clarkson et al (2006) examined the association between international cross-listing status and disclosure level in Australia and also found a positive association.

Auditor type: Large external auditors (those known as the Big Four), due to their better reputation can exert greater influence over the disclosure practices of the firm than a small and less reputed audit firm (Ahmed and Courtis, 1999) and may encourage firms to disclose better quality information (Firth, 1979). Studies conducted by (Clarkson et al., 2006, Coulton et al., 2001, Nelson et al., 2010) found positive associations between auditor type and disclosure level/quality of director and executive remuneration.

***Listed age of firm*:** Earlier research (Owusu-Ansah, 1998, Wallace, 1988, Wallace and Naser, 1995, Owusu-Anash and Yeoh, 2005), measured the relationship between mandatory disclosure level and the age of a company and concluded older listed companies have better-established policies and procedures than younger companies.

Firm reputation and long-term growth potential*:* Intangible assets such as patents, copyrights and goodwill represent both firm reputation and long-term growth potential of companies (Peterson and Fabozzi, 1999, Barth and Clinch, 1998, Barth and Kasznik, 1999). Gleb (2002) found that firms with higher levels of intangible assets disclose more voluntary information.

Leverage: Leverage represents the debt structure of a firm which can influence corporate disclosure (Ahmed and Courtis, 1999). Jensen and Meckling (1976) argue that highly leveraged firms disclose more information due to increased public scrutiny and better disclosure can reduce the monitoring costs. Ahmed (1996) suggests that agency costs are higher for those companies which have a higher proportion of debt in their capital structure and these costs can be reduced through an increased level of disclosure. The presumed relationship between disclosure and financial leverage was also reported by (Gore, 2004,

Ingram and DeJong, 1987, Laswad et al., 2005, Nelson et al., 2010, Patton and Zelenka, 1997, Raffournier, 1995).

Industry type: Corporate disclosure practices can vary according to the type of industry (Akhtaruddin, 2005, Cerf, 1961, Sprouse, 1967). This variation can be caused due to a range of factors including higher regulation for certain industries, greater contribution in the exports of the country, higher or lower level of risks, the industry-specific nature of operations and diverse product lines (Cooke, 1992, Owusu-Ansah, 1998). In the Asia-pacific countries, Taplin, Tower and Hancock (2002) found that there is better disclosure compliance level for services sector firms than for those in manufacturing and resources.

5.3.2 Disclosure index – dependent variable

For this study, the *relative disclosure index* is the dependent variable that measures disclosure levels of director and executive remuneration. Disclosure indices have been widely used by researchers to determine the level of company disclosure practices (Ahmed and Courtis, 1999, Beattie et al., 2004, Donnelly and Mulcahy, 2008, Guthrie et al., 2004, Owusu-Anash and Yeoh, 2005). The level of disclosure practices of each company was determined through a scoring template that was used to derive a disclosure index. The formulation of the disclosure index was based on general principles of content analysis of company annual reports containing relevant remuneration information (Beattie et al., 2004, p.214, Guthrie et al., 2004) and a category system. To ascertain the level of remuneration disclosure, the category system draws on three aspects of executive remuneration: 1) general disclosure of director and executive remuneration pertaining to the requirements of section 300 (A) and the Australian Accounting Standards Board; 2) disclosure of the company's pay-for-performance model related to section 300 (A); and 3) the engagement and participation of shareholders in deciding executive remuneration during the annual general meetings as per sections 250 (S)

and 250 (SA). The identification of these three categories for analysing the disclosure level of director and executive remuneration allows the construction of this research instrument.

The disclosure index comprises thirteen disclosure index items representing the aforementioned three main facets of remuneration disclosure. The level of general disclosure of director and executive remuneration is ascertained by considering the Section 300 (A) (1) (c) and the AASB 1046 and AASB 124. Section 296 (1) makes it compulsory for companies to prepare their financial reports and accounts as per the accounting standards of Australia. The first five disclosure items measure the disclosure level of general remuneration information by considering the following aspects: i) primary benefits; ii) post-employment benefits; iii) equity remuneration; iv) stock options for directors and executives along with their valuation details; and v) any other benefits offered to directors and executives. The details about these items and the disclosure level ranking criteria for each item are presented in Appendix II.

The second category of the disclosure index measures the disclosure level of the pay-for-performance model with the help of seven disclosure items. These items include: i) remuneration policy of the company and key factors influencing this policy; ii) company performance discussion including the total shareholder return in the current and previous four years; iii) a detailed summary regarding performance conditions upon which any short and/or long term element of remuneration is dependent; iv) justification about the selection of performance conditions on which any remuneration element is dependent; v) summary of methods used to assess the satisfaction of performance conditions and an explanation why such methods were selected; vi) if the performance condition involves comparison with external factors then these factors such as other companies or indices should be disclosed; and vii) if any securities element of remuneration is not dependent on any performance condition, then an explanation should be provided in this regard. The details about the

relevant sections of the aforementioned disclosure index items with relevant disclosure level ranking criteria are provided in Appendix II.

The third disclosure index category examines the level of the 'say on pay' phenomenon introduced in Australia through the CLERP Act 2004. The level of this aspect is assessed through the extent of discussion about director and executive remuneration during annual general meetings as provided in meeting minutes. The details about the criteria of disclosure level rankings and legal sections representing these disclosure index items of the 'say on pay' phenomenon are given in Appendix II.

The disclosure index comprising of 13 index items was developed as per Sections 300 A and 250 of Corporate Law Economic Reform Program (CLERP) Act 2004 as shown in Appendix II. Of these 13 index items 7 belonging to all three categories as listed in Appendix II are universally applicable for all the sample firms drawn from the S&P/ASX 300 index firms representing 80% of market capitalization (S&P, 2010). The remaining six items of the second category of disclosure index namely 7; 8; 9; 10; 11; and 12 are applicable as per the types of performance based remuneration elements in a given firm.

These thirteen disclosure index items were validated using the work of accounting and law scholars. The validated disclosure index was thereafter applied to company annual reports containing information about director and executive remuneration and minutes of the annual general meetings to measure the level of remuneration disclosure. The index and scoring scheme quantified the disclosure level of director and executive remuneration. The maximum score for the level of these disclosure categories is 36 – depending upon nature and different types of remuneration elements paid to company directors and executives. To ascertain the internal reliability of the disclosure index for three years – 1997, 2002 and 2006 - an analysis of reliability was performed based upon Cronbach's alpha.

The validated disclosure index computed the actual scores of remuneration disclosure in before (1997 and 2002) and after (2006) periods of mixed regulation in Australia. Thereafter, a *relative index* of disclosure was calculated for each company for the years 1997, 2002 and 2006 following the methodology used by Owusu-Ansah and Yeoh (2005, p.97) as shown in equation 1:

$$D_{ijt} = \sum_{i=1}^{mjt} dijt \Big/ \sum_{i=1}^{njt} dijt \qquad (1)$$

where D_{ijt} is the disclosure value for a disclosure index item i related to company j in year t (where year t can be 1997, 2002 and 2006) and coded as per the ranking score, 1 if the item was disclosed or 0 if it was not disclosed by the company (see Appendix II for disclosure level ranking scores); m_{jt} is the number of disclosure items which are relevant to company j and were actually disclosed in its annual report for year t; and n_{jt} is the maximum number of disclosure items that can be disclosed by company j in its annual report in year t. All data for dependent, independent and control variables were obtained from the publicly available information sources including company annual and financial reports and annual general meeting minutes.

5.3.3 Sampling process and characteristics of sample firms

The sampling frame for this research consisted of the top 300 Australian firms, Standard and Poor's or S&P/ASX 300 index firms, which were drawn from the target population of 2178 listed entities on the ASX. S&P/ASX 300 index firms are the largest Australian firms and represent 81 percent of the total market capitalisation (S&P, 2010, p.5). The sampling criteria of this study takes into consideration the following aspects: first, the firms which are listed during or after 1997 are not included; second, listed trusts, mutual and superannuation fund management entities are excluded because these firms do not have an executive style of management and have different reporting requirements; and finally, firms

which experience any abnormal activity that can affect their disclosure practices are primarily excluded from the selection of the final sample of this research. Using this sampling criteria, a final sample of 113 firms from S&P/ASX 300 index firms was drawn (Table 5.1). The list of sample firms is provided in Appendix III.

Table 5.1: Sampling process

Total S&P/ASX 300 index firms	294
Less firms which listed during or after 1996	173
Less listed fund management entities and trusts	5
Less non-registered Australian firm	1
Less firms with missing annual reports	2
Grand total of research sample	113

As discussed earlier, this research compares the disclosure practices of BCA member and non-BCA member firms in order to highlight the role of professional associations in the governance of modern corporations. In the Australian context, the business community including the BCA had criticised all of the state regulatory efforts. The BCA member firms represent 30 percent of the final sample and 70 percent are non BCA-member firms, as illustrated in Table 5.2.

Table 5.2: Distribution of companies by BCA membership

Firms	**Frequency**	**Percentage**
BCA members	34	30%
Non-BCA members	80	70%
Total	**114**	**100%**

5.3.4 The empirical model

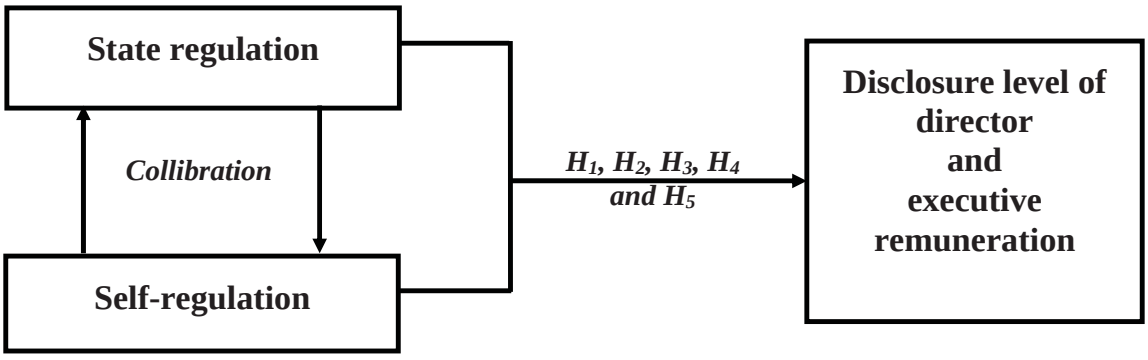
The empirical model in Figure 5.1 defines the relationship between independent and dependent variables. The definitions of the independent variables are presented in Table 5.3. In this study, the relationship between the dependent variable and the independent and control variables in each year of interest, i.e., 1997, 2002 and 2006, was expressed in three separate models to enable a comparison between three periods, which differed in the system of

regulation for corporate governance. In 1997 and 2002 state regulation alone was in force, whilst in 2006 a mixed regulation (CLERP 9 and ASX code) was in operation. As per the prediction, this study expects to find a difference in the relationship between remuneration practice adopted by firms and their level of disclosure under these two systems of regulation. The equations were derived from the hypothesized relations among the multidimensional constructs of this research.

$$D_{ijt}=\beta_0+\beta_1 BCA_{jt}+\beta_2 RemCommtt_{jt}+\beta_3 SeparateCEO_{jt}+\beta_4 CEOonRemCommmtt_{jt}$$
$$+\beta_5 FemalesonRemCommmtt_{jt}+\beta_6 RemConsultant_{jt}+\beta_7 RetAssets_{jt}$$
$$+\beta_8 EarnsShare_{jt}+\beta_9 ListAge_{jt}+\beta_{10} BigFour_{jt}+\beta_{11} IntagAssets_{jt}+\beta_{12} RetAssets_{jt}$$
$$+\beta_{13} DebtAssets_{jt}+\beta_{14} Services_{jt}+e_o \quad (2)$$

where D_{ijt} is the disclosure value for a disclosure index item i related to company j in year t ($t=1$-3) and e_o is the stochastic disturbance or error term and assumed to be independent and normally distributed with the same variance. The definitions of research variables are presented in Table 5.3. Disclosure indices for three individual firms are provided in Appendix V.

Figure 5.1 Conceptualising the effect of mixed regulation on disclosure level of director and executive remuneration



H_1: Presence of remuneration committee
H_2: Separate role of CEO and chairperson
H_3: Presence of CEO on the remuneration committee
H_4: Number of female directors on remuneration committee
H_5: Presence of remuneration consultant

Figure 5.1 depicts the predicted impact of state regulation and self-regulation by highlighting self-regulatory mechanisms of remuneration governance including: presence of remuneration committee; separate role of CEO and chairperson; presence of CEO on remuneration committee; number of female directors on remuneration committee and presence of remuneration consultant. In addition to these factors of mixed regulation, BCA membership status, firm profitability level, foreign listing status, auditor type, listed age of the firm, firm reputation and growth, leverage and industry type are included in this conceptual model.

Table 5.3 Definition of relative disclosure index and mitigating factors or controls

Variable name	Label	Variable definition
Relative disclosure index	Disclosure Index	A measure of disclosure level of director and executive remuneration both in pre- and post- eras of Corporate Law Economic Reform Program 9 (CLERP 9). It is a ratio between the actual disclosure of each company in its annual report and the maximum level of disclosure it can exhibit.
Presence of remuneration committee on company board	RemCommtt	Indicator variable to record the presence of remuneration committee on company board and coded as: 0 =absent and 1= present.
Separate role of CEO and Chairperson	SeparateCEO	Indicator variable to record the role separation between the company chairperson and chief executive officer (CEO) and coded as: 0 = no and 1 = yes.
Presence of CEO on the remuneration committee	CEOonRemCommtt	This variable records the presence of CEO on the remuneration committee of the firms and coded as: 0 = not present and 1 = present.
Number of female directors on remuneration committee	FemalesonRem Commtt	This variable represents the level of gender diversity in the remuneration governance structure of sample firms. This aspect is measured by recording the total number of female directors on the remuneration committee of the firm.
Presence of remuneration consultant	RemConsultant	This variable records the presence of remuneration consultants in the sample firms and coded as: 0 = not present and 1 = present.
BCA membership status	BCA	This variable records the membership status of sample firms with the Business Council of Australia (BCA) and is coded as: 0 = non-member and 1= member.
Return on assets	RetAssets	The firm's profitability is measured by return on assets ratio. This ratio determines the return (profit) on the assets employed during the respective financial year.
Earnings per share	EarnsShare	The firm performance is assessed by earnings per share. This ratio indicates the allocation of the company earnings for each common share during the respective financial year.
Foreign listing status	UKListing	Indicator variable to record the listing status of sample firms on London Stock Exchange (UK) and coded as: 0 = no and 1 = yes.

Auditor type	BigFour	Indicator variable for the type of external auditor; 1, if auditor is affiliated with a Big Four international audit firm and 0 if otherwise.
Listed age of the firm	ListAge	This variable illustrates the age of sample firms. Age is measured as the number of years since the company is listed on the stock exchange.
Intangible assets	IntagAssets	The firm reputation and growth potential is measured through intangible assets by recording the reported dollar value of intangible assets of sample firms at the end of respective financial years.
Debt to asset ratio	DebtAssets	The ratio that indicate the proportion of assets which are being financed by debt in the respective financial year.
Industry type	Services	Indicator variable that shows industry type (services or non-services) of sample firms and coded as: 1= services, 0 = non-services.

Multiple regression analysis was used to estimate the contribution of self-regulatory elements of best practice to disclosure information before and after the implementation of mixed regulation in order to identify if there were any difference in the key determinants contributing to disclosure in the periods of pre and post mixed regulatory regime. Furthermore, Chow test was used to verify the proposition of equality between 1997, 2002 and 2006 so as to confirm if there was a significant difference in the relationships modelled for the three periods which differed in the system of regulation. Statistical Package for Social Sciences (SPSS) version 18 was utilised for data analysis.

5.4 Results and findings

5.4.1 Descriptive statistics

Table 5.4 demonstrates that there was a 23 percent increase in the presence of a remuneration committee on company boards of sample firms after mixed regulation era (2006) in Australia. The separate role of CEO and chairperson of selected firms indicates a mixed trend, first with moderate increase of 4 percent from 1997 to 2002 and then decline of 2 percent in 2006 as shown in Table 5.4.

Table 5.4 Descriptive statistics of dichotomous variables (N = 113)

	Frequency			Percentage		
Variable	**1997**	**2002**	**2006**	**1997**	**2002**	**2006**
Presence of remuneration committee on company board	76	89	102	67%	79%	90%
Separate role of CEO and chairperson	103	107	105	91%	95%	93%
Presence of CEO on the remuneration committee	24	26	23	21%	23%	20%
Presence of the remuneration consultant	37	50	98	33%	44%	87%
Foreign listing status	7	7	7	6%	6%	6%
Auditor type	79	96	100	70%	85%	88%
Industry type	44	44	44	39%	39%	39%

The presence of the CEO on the remuneration committee shows an increasing trend of 2 percent from 1997 to 2002 and for 2006 a decline of 3 percent. The use of remuneration consultants increases by 54 percent from 1997 to 2006.

Table 5.5 Descriptive statistics of non-dichotomous variables (N= 113)

Variable	1997	2002	2006
Number of female directors on remuneration committee	.14 (.37)	.22 (.44)	.39 (.59)
Return on assets	-.55 (19.76)	-5.09 (35.15)	4.79 (15.07)
Earnings per share	.19 (.38)	.08 (1.68)	.53 (.86)
Listed age of the firm	14.69 (14.59)	19.68 (14.60)	23.61 (14.63)
Intangible assets	121307.62 (307597.68)	363974.19 (796234.90)	652187.35 (1380773)
Debt to asset ratio	21.20 (19.39)	21.44 (20.48)	23.56 (21.70)

5.4.2 Changes in disclosure index: Univariate analyses

Table 5.6 presents the mean and standard deviation values of the relative disclosure index (dependent variable) before (1997 and 2002) and after (2006) co-regulatory regime.

Table 5.6 Descriptive statistics of relative disclosure index (N= 113)

	Mean			Minimum			Maximum		
Variable	**1997**	**2002**	**2006**	**1997**	**2002**	**2006**	**1997**	**2002**	**2006**
Relative disclosure index	.13 (.05)	.27 (.08)	.63 (.17)	.03	.08	.14	.47	.58	.89

The mean value of the relative disclosure index for year 1997 is .13 (standard deviation .05); for 2002 it was .27 (standard deviation .08) and for 2006 it was .63 (standard deviation .17). These mean values indicate a change of more than 50 percent after mixed regulation developed through the coupling of the formalising and canalising techniques of collibration. To measure the true significance of the incremental change, the Friedman test was conducted to analyse the variance on the same subjects when measured at three or more points in time (Pallant, 2005, p.296). The results, presented in Table 5.7, suggest that there

are significant differences in relative disclosure index scores of three different years as indicated by a significant level of .000 or ($p < .0005$). Comparing the ranks for years 1997, 2002 and 2006 as shown in Table 5.7, it was evident that there was a steady and substantial increase in disclosure level of director and executive remuneration over time, which peaked in the era of mixed regulation (2006).

Table 5.7 Friedman test statistics (N= 113)

Mean Rank 1997	1.01
Mean Rank 2002	2.00
Mean Rank 2006	2.99
Chi-square	224.01
Degree of freedom	2
Asymptote significance	.000

As a parametric alternative to the Friedman test, an Analysis of Variance (ANOVA) was conducted (Pallant, 2005, pp.223-224, Zikmund, 1997, p.597). The results of ANOVA shows that there is a significant improvement in disclosure level after the development of mixed regulation through collibration techniques [Wilks's Lambda =.087, F (2, 114) = 591.03, $p <$. 0005, multivariate partial eta squared = .913].

The large magnitude of change implies that disclosure behaviour is highly sensitive to an altered regulatory framework, which complements state-based regulation with self-regulation through mixed-regulation. The distinct improvement in disclosure levels is the outcome of firms responding to the mixed regulation by adjusting their governance practices to meet the disclosure requirements mandated under CLERP 9. In an earlier study of discretionary disclosure in Australian companies, Liu and Taylor (2008) found that in a relatively unregulated environment, where a formal framework for self-regulation was absent, corporate management tended to disclose personally sensitive information like executive remuneration only when they were subject to higher shareholder or public scrutiny. The

impact of key determinants of disclosure level of director and executive remuneration in the two different regulatory regimes was examined next by multivariate analysis.

5.4.3 Key determinants of disclosure level in pre and post mixed-regulatory regime

Multiple regression analysis was used to examine the impact of mixed regulation on disclosure level. Table 5.8, 5.9 and 5.10 presents the pair-wise Pearson product-moment correlation coefficients of the variables with three levels of significance as $p <= .01$; $p <= .05$ and $p <= .10$ for the respective years 1997, 2002 and 2006 respectively. Gujarati (1995) and Tabachnick and Fidell (2001) recommend that statistical problems which are created by collinearity and singularity can take place at a higher bivariate correlation of .90 and above. The correlation coefficients values show no serious problem of multicollinearity as all the values of r^2 between the two variables are less than .90. Variance inflation factors (VIFs) and tolerance values for each variable are computed and shown in Tables 5.8, 5.9 and 5.10. The VIFs and tolerance values also do not indicate any problems of multicollinearity.

Table 5.8 Pearson correlation coefficients and collinearity statistics of 1997 (N = 113)

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Tolerance	Variance inflation factor
1	Relative disclosure index	1															.55	1.83
2	RemCommtt	.18*	1														.85	1.18
3	SeparateCEO	.06	.25***	1													.76	1.31
4	CEOonRemCommtt	.04	.36***	.01	1												.77	1.30
5	FemalesonRemCommtt	.04	.26***	.12	-.02	1											.73	1.38
6	ConsultonRemCommtt	.28***	.41***	.22**	.01	.19*	1										.69	1.44
7	BCA	.20*	.13**	.20*	.08	.16*	.08	1									.83	1.21
8	RetAssets	.10	.32***	.07	.11	.02	.10	.17*	1								.77	1.30
9	EarnsShare	.22**	.11	.15†	-.02	.10	.04	.26**	.01	1							.71	1.41
10	UKListing	.38***	.18*	.08	.05	.30***	.21*	.31***	.03	.18*	1						.87	1.15
11	BigFour	.16*	.16*	.07	-.04	-.06	.05	.14†	.03	.21*	.01	1					.67	1.50
12	ListAge	.21**	.05	.01	.08	.17*	.14†	.33***	.03	.10	.40***	.06	1				.76	1.31
13	IntagAssets	.19*	.09	.11	-.02	.17*	.15†	.29***	.08	.33***	.02	.13†	.10	1			.93	1.08
14	DebtAssets	.02	.08	.17*	-.02	-.03	.08	-.06	-.03	.10	.04	-.05	-.02	.06	1		.68	1.47
15	Services	.02	.17*	.06	.16*	.18*	.18*	.15†	.21*	.23**	.02	-.07	-.23**	.28***	.06	1		

***significant at p<=.001; **significant at p<=.01; *significant at p<=.05; and †significant at p<=.10

1. Relative disclosure index
2. Presence of remuneration committee on company board
3. Separate role of CEO and chairperson
4. Presence of CEO on the remuneration committee
5. Number of female directors on remuneration committee
6. Presence of remuneration consultant
7. BCA membership
8. Return on assets
9. Earnings per share
10. Foreign listing status
11. Auditor type
12. Listed age of the firm
13. Intangible assets
14. Debt to asset ratio
15. Industry type

Table 5.9 Pearson correlation coefficients and collinearity statistics of 2002 (N = 113)

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Tolerance	Variance inflation factor
1	Relative disclosure index	1																
2	RemCommtt	.33***	1														.63	1.59
3	SeparateCEO	.11	.17*	1													.85	1.18
4	CEOonRemCommtt	-.01	.28***	-.06	1												.83	1.20
5	FemalesonRemCommtt	.30***	.26**	.12	.02	1											.85	1.18
6	ConsultonRemCommtt	.33***	.38***	.05	.02	.14†	1										.77	1.29
7	BCA	.44***	.25**	.16*	-.04	.26**	.08	1									.70	1.42
8	RetAssets	.22**	.27**	.18*	.13†	.11	.13†	.19*	1								.60	1.66
9	EarnsShare	.12†	.02	.00	.05	.10	-.07	.21*	.51***	1							.43	2.35
10	UKListing	.46***	.13†	.06	-.14†	.21*	.14†	.31***	.05	.10	1						.72	1.39
11	BigFour	.18*	.33***	.12	.17*	.15†	.33***	.11	.19*	.04	.11	1					.79	1.27
12	ListAge	.41***	.08	.04	.02	.18*	.11	.33***	.05	.11	.40***	.12	1				.70	1.43
13	IntagAssets	.30***	.24**	.01	-.00	.02	.09	.30***	.11	.18*	.27**	.19*	.06	1			.71	1.41
14	DebtAssets	.12	.15†	-.15†	.02	-.04	.18*	.00	-.13†	-.55***	.07	.10	-.03	.09	1		.56	1.78
15	Services	.17*	.19*	.03	.08	.03	.06	.15†	.23**	.17*	.02	.03	-.23**	.35***	.07	1	.74	1.35

***significant at p<=.001; **significant at p<=.01; *significant at p<=.05; and †significant at p<=.10

1. Relative disclosure index
2. Presence of remuneration committee on company board
3. Separate role of CEO and chairperson
4. Presence of CEO on the remuneration committee
5. Number of female directors on remuneration committee
6. Presence of remuneration consultant
7. BCA membership
8. Return on assets
9. Earnings per share
10. Foreign listing status
11. Auditor type
12. Listed age of the firm
13. Intangible assets
14. Debt to asset ratio
15. Industry type

Table 5.10 Pearson correlation coefficients and collinearity statistics of 2006 (N = 113)

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Tolerance	Variance inflation factor
1	Relative disclosure index	1																
2	RemCommtt	.52***	1														.38	2.67
3	SeparateCEO	.35***	.38***	1													.80	1.25
4	CEOonRemCommtt	-.16*	.17*	-.03	1												.87	1.15
5	FemalesonRemCommtt	.43***	.21*	.12	-.18*	1											.80	1.26
6	ConsultonRemCommtt	.39***	.75***	.30***	.07	.21**	1										.41	2.46
7	BCA	.47***	.22*	.18*	-.14†	.27**	.20*	1									.61	1.64
8	RetAssets	.33***	.27**	.09	.02	.06	.31***	.16*	1								.58	1.73
9	EarnsShare	.44***	.18*	.11	-.15†	.24**	.21*	.57***	.23**	1							.44	2.26
10	UKListing	.27**	.08	.07	-.13†	.15†	.10	.31***	.10	.56***	1						.61	1.64
11	BigFour	.38***	.35***	.01	-.02	.19†	.35***	.18*	.41***	.20*	.09	1					.71	1.40
12	ListAge	.22*	.06	.10	-.04	.12	.04	.33***	.14†	.31***	.40***	.09	1				.68	1.46
13	IntagAssets	.39***	.16*	.10	-.16*	.24**	.18*	.30***	.01	.40***	.24**	.15†	-.02	1			.73	1.37
14	DebtAssets	.06	-.04	.04	-.00	.06	-.03	-.01	-.47***	-.06	.02	-.06	-.09	.15†	1		.69	1.46
15	Services	.34***	.20*	.01	.00	.29***	.26**	.15†	.12	.25**	.02	.17*	-.22**	.31***	.19*	1	.68	1.48

***significant at p<=.001; **significant at p<=.01; *significant at p<=.05; and †significant at p<=.10

1. Relative disclosure index
2. Presence of remuneration committee on company board
3. Separate role of CEO and chairperson
4. Presence of CEO on the remuneration committee
5. Number of female directors on remuneration committee
6. Presence of remuneration consultant
7. BCA membership
8. Return on assets
9. Earnings per share
10. Foreign listing status
11. Auditor type
12. Listed age of the firm
13. Intangible assets
14. Debt to asset ratio
15. Industry type

As reported in Table 5.11, a substantial increase in the value of the coefficient of determination (adjusted-R^2) from (.15) in 1997 and (.39) in 2002 to (.55) in 2006 suggests that the shift to mixed regulation via collibration led to a significant improvement in the disclosure level of director and executive remuneration.

Results prior to the mixed regulatory era: The results of the model for year 1997 (model 1) and year 2002 (model 2) suggest that prior to mixed regulation, with the exception of remuneration consultants, only firm-specific characteristics such as BCA membership, foreign listing status and listed age of firm made a significant positive contribution to the level of disclosure information [Model 1: *Adjsuted-*R^2 = .15 and p < .01] and [Model 2: *Adjusted-*R^2 = .15 and p < .001]. A significant positive relationship between the presence of a remuneration consultant in the era of pre mixed regulation (remuneration consultant: p < .05, with β = .21) for 1997 and for 2002 (remuneration consultant: p < .05, with β = .19) contradicts the view of the managerial power approach which contends that the use of remuneration consultant can lead to agency problems. Among the control variables, a positive relationship between BCA membership and disclosure level of director and executive remuneration (BCA membership: p < .10, with β = .17) was found for 2002 only. As well, there is a positive association between the foreign listing status and the level of remuneration disclosure prior to the mixed regulatory regime for both 1997 (Foreign Listing Status: p < .01, with β = .33) and 2002 (Foreign Listing Status: p < .05, with β = .23), consistent with the findings of the studies by (Clarkson et al., 2006, Cooke, 1992, Meek et al., 1995). Age of the firm and disclosure level (Listed Age of the Firm: p < .01, with β = .25) suggests that older firms have better disclosure level than younger firms. This result is consistent with the findings of Owusu-Ansah and Yeoh (2005, p.102). In sum, prior to mixed regulation, firm-specific characteristics, not other self-regulatory mechanisms, appear to be the key determinants

of disclosure. In the absence of a formalised system of self-regulation, when remuneration disclosure is guided by pure state regulation (Companies Regulations Amendment No. 206, 1987 and CLR Act 1998), firms are not obliged to explain or be accountable if they do not implement industry best practices recommended for disclosure.

Results for post-2006 mixed regulatory period: By contrast, as the results of model 3 (for the year 2006) suggest, the implementation of mixed regulation through collibration catalysed the adoption of behaviour-based contractual governance mechanisms recommended for improving the level of disclosure information, making firm-specific characteristics less relevant. Results for Model 3 [Model 3: *Adjusted-*R^2 = .55 and $p < .001$] show a substantial increase of 40 percent in the value of the coefficient of determination in the post collibration period, signifying that a mixed regulatory framework is more effective than state regulation alone. This finding strengthens the plausibility of the hypothesis that better implementation of behaviour-based governance practices by firms tends to improve disclosure behaviour. The results of model 3 reveal that the predicted variables – presence of remuneration committee (H_1), separate role of CEO and Chairperson (H_2), presence of CEO on remuneration committee (H_3) number of female directors on remuneration committee (H_4) and presence of remuneration consultant (H_5) are all significant in determining disclosure level of director and executive remuneration.

As hypothesised in H_1, the relationship between the presence of the remuneration committee on the company board and disclosure level of director and executive remuneration is significant (Presence of Remuneration Committee: $p < .001$ with $\beta = .39$) in the mixed regulatory period as illustrated in Table 5.11. This result contradicts the results of studies conducted in Australia (Coulton et al., 2001, Liu and Taylor, 2008)

which found no positive association between the presence of the remuneration committee on the board and disclosure levels.

With the implementation of a formalised system of self-regulation under ASX Principles 2003, ASX-listed firms were obliged to provide an explanation when they did not implement a recommended practice. The provision of such an explanation under ASX 2003 resulted in greater transparency regarding firm situation, and led to improved adoption of best practices. In this way, self-regulation under ASX 2003 resulted in an increase in the number of firms that established a remuneration committee to seek expertise for good corporate governance to facilitate disclosure. Therefore in contrast to the years 1997 and 2002, the presence of a formalised system of self-regulation (ASX 2003) under mixed regulation in 2006 facilitated the implementation of remuneration practices by firms recommended by ASX guidelines to improve disclosure level. Accordingly in the model for year 2006, the presence of a remuneration committee was found to have a significant impact on disclosure levels.

A positive association between separate roles of CEO and chairperson of the company and disclosure level of director and executive remuneration was hypothesised in H_2. The results (Table 5.11) find a positive and significant relationship between the level of remuneration disclosure and separate roles for CEO and chairperson (Separate Role of CEO and Chairperson: $p < .05$, with $\beta = .14$) in the mixed regulatory period (2006). This finding supports the empirical studies by (Bassett et al., 2007, Forker, 1992) which report that level of corporate disclosure is positively related with role separation of CEO and chairperson. The positive relationship between the role separation between CEO and chairperson and disclosure level highlights the relevance of the formalised system of self-regulation (ASX 2003) under mixed regulation in 2006.

Table 5.11 Results of multiple regression analysis for years 1997, 2002 and 2006 (N=113)

	Model 1	Model 2	Model3
	1997	**2002**	**2006**
Presence of remuneration committee on company board	.03 (.22)	.09 (.92)	.39*** (3.77)
Separate role of CEO and chairperson	-.04 (-.46)	.02 (.29)	.14* (2.05)
Presence of CEO on remuneration committee	.03 (.25)	-.02 (-.29)	-.12† (-1.83)
Number of female directors on remuneration committee	-.12 (-1.17)	.11 (1.42)	.17* (2.39)
Presence of remuneration consultant	.21* (2.01)	.19* (2.27)	-.17† (-1.70)
BCA membership	.02 (.17)	.17† (1.95)	.16† (1.94)
Return on assets	.07 (.73)	.08 (.80)	.20* (2.41)
Earnings per share	.11 (1.14)	.02 (.15)	.05 (.51)
Foreign Listing Status	.33** (3.22)	.20* (2.33)	.02 (.29)
Auditor Type	.08 (.87)	-.04 (-.51)	.10 (1.31)
Listed Age of the firm	.01 (.07)	.25** (2.85)	.09 (1.20)
Intangible Assets	.15 (1.45)	.09 (.98)	.13† (1.81)
Debt to Asset Ratio	-.01 (-.14)	.08 (.82)	.12 (1.64)
Services Industry	-.08 (.80)	.11 (1.26)	.14† (1.76)
R^2	**.26**	**.47**	**.61**
Adjusted R^2	**.15**	**.39**	**.55**

***significant at p<=.001; **significant at p<=.01; *significant at p<=.05; and †significant at p<=.10

By contrast, a negative association between the presence of the company CEO on the remuneration committee and disclosure level of director and executive remuneration indicates that the presence of the CEO on the remuneration committee is negatively associated with disclosure level of director and executive remuneration (Presence of CEO on the Remuneration Committee: $p < .10$, with $\beta = -.12$). This finding is consistent with

the findings of (Liu and Taylor, 2008) who examined the relationship between the proportion of executive directors to total directors on company boards and the disclosure level of director and executive remuneration. Recently, Nelson et al. (2010) examined the independence of the remuneration committee (percentage of non-executive directors on remuneration committee) by forming a composite governance factor and found a positive and significant relationship with the disclosure of statutory stock options information.

There is a positive and significant association between the number of female directors on the remuneration committee and level of remuneration disclosure as hypothesised in H_4 (Presence of Female Directors on the Remuneration Committee: $p < .05$, with $\beta = .17$) under mixed regulation in 2006. This result is consistent with a study by (Nalikka, 2009) which finds that firms with female chief financial officers generate higher levels of voluntary disclosures in annual reports. Likewise, Adamsa and Ferreirab (2009) note that firms with female directors on company boards have better monitoring activities.

As predicted, there is a negative association between the presence of a remuneration consultant and the level of disclosure information (Presence of remuneration consultant: $p < .10$, with $\beta = -.17$). It is imperative to mention that there has been a tremendous increase (54 percent) of the utilisation of consultants from 1997 to 2006 by the sample firms as evident in Table 5.4. This increasing trend; and the negative association between remuneration consultant presence and disclosure level imply that there is a potential for agency problems in the engagement of remuneration consultants. Earlier studies did not examine this relationship. However, two recent studies measured the impact of the presence of remuneration consultants on the structure and levels of CEOs' remuneration in the UK and the USA (Conyon et al., 2009, Voulgaris et al., 2010).

Conyon et al. (2009) found that there was a positive link between the presence of a remuneration consultant and greater salary of CEOs including equity-based remuneration.

In model 3 (year 2006) there is a significant relationship between BCA membership status and disclosure level of director and executive remuneration (BCA membership: $p < .10$, with $\beta = .16$) in Table 5.11. As well, intangible assets and services sector are positively associated with disclosure level of director and executive remuneration (Intangible Assets: $p < .10$, with $\beta = .13$; Services Industry: $p < .10$, with $\beta = .14$). Other control variables, namely EPS, foreign listing status, auditor type, listed age of firm and debt to asset ratio, did not exhibit any relationship with disclosure level of director and executive remuneration in the mixed regulatory period.

Differences in the three models representing two regulatory periods - 1997 and 2002, and 2006 - were further verified by the Chow test. Table 5.12 presents the Chow test calculations computed to either accept or reject the null hypothesis about the equality of regression models before and after the mixed regulatory regime. The observed F value (112.35) exceeds the critical $F_{14,\ 311} = 1.72$; thereby the null hypothesis about equality is rejected. This result implies that a shift from an era of state regulation alone to a mixed regulation achieved through collibration resulted in a significant change in regulatory practices adopted by firms for disclosure.

Table 5.12 Chow test calculations (N=113)

$$F = \frac{RSS_c - (RSS_1 + RSS_2 + RSS_3)/k}{RSS_1 + RSS_2 + RSS_3 / n1 + n2 + n3 - 2(k)}$$

where; RSS_c = Pooled Sum of Squares Residual

RSS_1 = Sum of Square Residual for 1997

RSS_2= Sum of Square Residual for 2002

RSS_3= Sum of Square Residual for 2006

n_1 = Sample Size in 1997

n_2= Sample Size in 2002

n_3= Sample Size in 2006

k = Number of predicted variables

df = (k, n_1+n_2+n_3-2k)

The following values are inserted into the formula input components to calculate F value.

= [10.60 - (.17+.39+1.22)]/14 ⁄(.17+.39+1.22)/113+113+113 - 2(14)

F = 112.35.

And,

df = [14, 113+113+113-2(14)]

= (14, 311)

For, α is fixed at the 5% the $F_{14, 311}$ = 1.72.

5.5 Summary

This chapter examined the efficacy of mixed regulation in addressing moral hazard agency conflicts. Developed through collibration rather than the imposition of substantive compulsory standards, the mixed regulatory framework emphasised behaviour-oriented contractual governance mechanisms.

The empirical tests examined if mixed regulation has improved remuneration disclosure and its relationship with governance practices. The key determinants of disclosure level of director and executive remuneration represented both state and self regulatory elements and the impact of these factors was examined before and after the mixed regulatory period. The results of the econometric analysis show that disclosure levels are significantly higher following a mixed-regulatory regime. After controlling for firm specific characteristics, the improvement in corporate disclosure is found to be primarily driven by the establishment of remuneration committees, chairman and CEO role separation, presence of the CEO on the remuneration committee, number of female directors on remuneration committee and the presence of remuneration consultants – thus highlighting the key aspects of mixed regulatory initiatives influencing disclosure levels in Australia.

Effective disclosure is guided both by what is mandated by law as well as firm-level remuneration practices. In 1997 and 2002, only state regulation guided remuneration

disclosure and predictably recommended practices such as the presence of a remuneration committee did not have any significant impact on remuneration disclosure. A marked difference was observed when a mixed regulation was established through collibration in 2006. Under mixed regulation the presence of a formalised system of self-regulation (ASX 2003) facilitated the implementation of remuneration practices by firms to improve disclosure levels. As evident in the findings of this chapter therefore, a mixed regulatory regime can be more effective than a single mode for addressing moral hazard agency conflicts by minimising the problems of information asymmetry. These findings refute the 'either - or' approach towards modern economic management and instead illustrates the mutually reinforcing relationship between state regulation and self-regulation.

Chapter Six: An analysis of disclosure level of director and executive remuneration of foreign multinational firms

6.1 Introduction

In a rapidly globalising world economy, multinational companies (MNCs) operate across various legal systems involving different approaches to corporate governance. International standards for governance and reporting are not well established and enforcement occurs largely by stock exchanges and/or national jurisdictions. While the MNC-parent entity is subject to its home country's corporate governance laws and codes, each affiliate of the MNC is typically a legal entity in its host country (Windsor, 2009). MNCs' governance structures and practices may therefore vary greatly across country subsidiaries (Windsor, 2009). Due to dualities in reporting structures, firms which are multinational are associated with heightened agency problems. Agency costs increase as task programmability and behaviour verifiability become more difficult.

Australia's national system of corporate governance underwent epochal reforms at the turn of the 20th century in the wake of a series of corporate collapses. Increased disclosure requirements were initiated through a mixed regulatory framework that comprised of state regulation (CLERP 9 2004) and self-regulation (ASX codes 2003). Beyond Australia, governments worldwide have intervened to ensure greater accountability and transparency relating to executive remuneration governance (Chapple and Christensen, 2005, Kirkbride and Letza, 2004, Sheehan, 2009). However, it is by no means clear whether higher standards of disclosure in Australia have been effective in bringing about better disclosure in MNCs in particular.

The purpose of this chapter is to examine whether mixed regulation, developed through collibration, has spurred better disclosure of director and executive remuneration

in MNC-subsidiaries in Australia. A set of hypotheses on how multi-nationality affects disclosure level are derived, by drawing on a theoretical discussion and then tested in an empirical framework. The results, which run counter to the predictions, show that multinationality status is negatively associated with disclosure level of director and executive remuneration. Interestingly however, MNCs with greater resource dependence in the host environment are associated with higher level of disclosure. The chapter is arranged in the following order. Section 6.2 presents the proposed research hypotheses and conceptual model. The research design is discussed in section 6.3 which illustrates the details of the dependent variables – disclosure index; sampling process; characteristics of foreign MNCs and domestic firms; definitions of research variables; and empirical model. The results and findings of the tests of the proposed hypotheses and conceptual model are presented in section 6.4. Section 6.5 concludes this chapter by summarising the key findings of the analysis of disclosure practices of foreign MNCs.

6.2 Review of related literature and research hypotheses

6.2.1 Disclosure level of director and executive remuneration of foreign MNCs and domestic firms

A multinational enterprise can be viewed as a single organization that operates in a global environment, with a need to coordinate its far-flung operations; it can also be viewed as a set of organizations of affiliates that operate in distinct national environments (Rosenzweig and SinghSource, 1991). Ghoshal and Bartlett (1990) defined MNCs as entities with an array of geographically dispersed subunits, often with incongruent goals. Subsidiaries can be viewed as inter-organisational networks, which interact with networks of regulators, customers, suppliers and partners both at national and at international levels. The subsidiary manager has to confront two conflicting pressures – local responsiveness and global integration (Alpay et al., 2005, p.71, Ghoshal and Bartlett,

1990). On the one hand, subsidiaries have to adhere to laws, values and norms and tailor a locally responsive system of corporate governance in the host country (Kim et al., 2005). On the other, subsidiaries of foreign MNCs have to maintain internal consistency by establishing similar governance structures and mechanisms as a subpart of the larger organisation, the parent MNC. In other words, if subsidiaries of MNCs face pressures to adapt to the institutional demands of host countries, they also face pressures for consistency with other subunits of the MNC (Rosenzweig and SinghSource, 1991). As a result, these conflicting pressures can make governance of MNCs more complicated. In such situations, the strategic interdependency of a MNC-subsidiary with its parent and peers often determines the extent to which the subsidiary has to align its organisational structures and processes with them (Kim et al., 2005, p.45). It is instructive to note that the survival and prosperity of the subsidiary depends critically on conformance to the requirements of these two conflicting environments and their respective pressures. As a result, the endurance of the subsidiaries of the foreign MNCs demands a delicate balance to be maintained in order to operate in environments which carry conflicting pressures (Alpay et al., 2005, p.69, Ghoshal and Bartlett, 1990). In this regard, the MNC parent can play a pivotal role by adopting 'differentiated fit' and 'shared values' strategies for better performance and integration of their subsidiaries (Nohria and Ghoshal, 1994).

When subsidiaries of MNCs have a high degree of resource dependence on the MNC-parent, this interdependence increases the requirement for disclosure information to be tailored for the board of the MNC-parent, who can then monitor and control their subsidiary executives based on its own metrics of evaluation (Luo, 2005, Tushman and Nadler, 1978). On the other hand, dependence in the host country also increases the requirement for the board of the MNC-subsidiary to respond to host country pressures. Plausible contradictions between home and host country standards of corporate

governance require MNC-subsidiaries to design information systems that fulfil the increased requirement of monitoring to address dualistic agency problems (Alpay et al., 2005, Luo, 2005). Given these conflicting pressures, it is plausible that MNCs would craft better information systems than domestic firms which can assist them to address the unique information asymmetries between the principals of both the MNC-parent and MNC-subsidiary (Riahi-Belkaoui, 2001, Cahan et al., 2005, Khanna et al., 2004, Luo, 2005, Meek et al., 1995). The following hypothesis H_1 proposes a positive relationship between multi-nationality status of the firm (the foreign MNC subsidiary) and disclosure level of director and executive remuneration.

H_1: Disclosure level of director and executive remuneration is positively related with multi-nationality status of the firm.

6.2.1.1 Geographical diversification and disclosure level of director and executive remuneration

The extent of globalization as denoted by geographical diversification can be an important determinant of how corporate governance is shaped within an MNC. For MNC-subsidiaries, the globalization experience can be an independent influence by itself on disclosure of information (Cahan et al., 2005, Luo, 2005, p.37). As such, MNCs are complex to govern in comparison to domestic firms and this complexity increases with the increase of their geographical diversification (Windsor, 2009). Geographical spread and diversity pose serious issues around variance in legal, economic, non-market systems and institutions across different countries. This dispersion along with the insider advantage of agents makes monitoring and information processing more difficult and costly for company boards of foreign MNCs. The governance of foreign MNCs need superior mechanisms which can not only address managerial and governance issues, but also manage agency problems linked with geographic dispersion of sales, assets and

human resources caused due to spatial complexities (Sanders and Carpenter, 1998, p.162). It would appear therefore that MNC subsidiaries would need to install suitable governance mechanisms that fulfils the increased requirement of monitoring and alleviate problems of information asymmetries (Alpay et al., 2005, Luo, 2005).

Bushman and Smith (2001, p.240) argue that the examination of information disclosure of firms with multinational operations can indicate how these firms address information asymmetry problems while operating in a relatively complex environment. The extent of geographical diversification is usually concerned with the number of countries in which subsidiaries operate. Geographical diversification can positively impact firm value by reducing risk, raising operational flexibility and in certain cases reducing taxes (Cahan et al., 2005, p.75, Caves, 1971, Hines and Rice, 1994, Kogut, 1983, Rugman, 1986). The argument for diversification is similar to the idea presented by Markowitz (1959) who argues that if individuals desire to reduce the risk of their portfolios at the given level of risk then they should invest in those assets that have uncorrelated returns (Hennart, 2005, p.78). Likewise, firms invest in such revenue-yielding assets (countries) which have uncorrelated returns. In this situation, the firm that generates profits in a greater number of countries may have more stable returns than a firm which yields its profits in a single country or a lesser number of countries. Geographical diversification can mitigate supply and demand constraints of one national market by balancing the peaks and troughs of a firm's revenue trends thereby resulting in higher firm value. In case of increased firm value and geographic diversification, there will be a rise in the demand for information and firms will disclose more information to satisfy the information needs of a larger base of stakeholders (Hennart, 2005, Meek et al., 1995, Emmanuel and Gray, 1977).

On the other hand, geographical diversification can decrease firm value due to the interest misalignment between principals and agents (Cahan et al., 2005, Denis et al., 2002). As observed earlier, geographically diverse firms are more complex than their domestic counterparts and face additional agency conflicts. This complexity can make the monitoring of agent activities and performance relatively more difficult and costly, thereby resulting in higher agency costs (Denis et al., 2002). Furthermore, information asymmetry problems can mount because of the specialised knowledge the managers have about the subsidiaries' operations in comparison to MNC-parent executives. Thomas (2000) argues that investors generally underrate the foreign earnings due to lack of the understanding of firms' foreign operations and this underestimation is partially caused due to poor disclosure by geographically diverse firms. Hope (2003) finds that accuracy of analysts' forecasts were better for those firms who have disclosed more information. Better monitoring mechanisms developed through breadth of experience can facilitate the parent company board and top management to ensure better control on the activities of the CEOs of the subsidiaries who have an insider advantage due to their specialised knowledge of the host country operations. From the above discussion, it can be inferred that information asymmetries and agency costs rise due to geographical diversification of operations and these agency pressures can compel the foreign MNCs to disclose better information. In the context of disclosure level of director and executive remuneration, this study proposes a positive association between disclosure level and geographical diversification of operations.

H_2: Greater geographical diversification will be positively associated with higher disclosure level of director and executive remuneration.

6.2.1.2Domicile status

While globalization can result in a convergence of governance systems across countries, by contrast, path dependent economic systems lead different economies and firms to very different corporate governance systems (Bebchuk and Roe, 1999). When national systems of governance diverge significantly across countries, information asymmetry problems can exacerbate contradictory agency relationships (Luo, 2005). This contradiction throws up interesting questions as to how the MNC is going to respond to this contradiction. MNC-subsidiaries which are not registered in the host country do not come under the jurisdiction of national corporate laws. These subsidiaries comply with the laws of the countries in which these are registered. In the Australian context, these MNCs are only subject to the self-regulatory mechanisms of the ASX Corporate Governance Council as per the listing rules of the ASX. Therefore, it will be interesting to examine the disclosure level of the non-registered Australian entities. By including this factor, the relevance of the institutional context in which these firms operate can be discerned. It is expected that such firms will be negatively associated with disclosure level of director and executive remuneration. This research proposes a negative relationship between the non-registered Australian entity status and disclosure level of director and executive remuneration in the following hypothesis H_3.

H_3: Disclosure level of director and executive remuneration will be negatively related with non-registered Australian entity status.

6.2.1.3Product market interaction

While MNCs' responsiveness in national regimes can be studied generically, it is also useful to examine to what extent their interactions in product or factor markets in the host country can affect their level of disclosure (Khanna et al., 2004). Foreign subsidiaries are often reliant on income from sales in local markets and have a relatively greater need

to gain legitimacy locally (Rosenzweig and SinghSource, 1991). As a result of this resource dependence, local subsidiaries of MNCs may come to reflect the 'locally accepted practices' of the societies in which they operate (Westney, 1989). Companies that wish to integrate themselves into the host country may find that the costs of doing business are greater if their disclosures do not conform to host country regulations. Customers may need higher level of financial information to assess the long-term viability of foreign firms which come from different legal jurisdictions (Khanna et al., 2004). Greater demand for information processing arises from a multitude of pressures emanating from customers, regulators, partners and suppliers. MNC managers may also voluntarily increase disclosure to attract investors from countries with better disclosure and governance standards (Khanna et al., 2004). Therefore, MNCs that have a higher product market interaction in the host country would be likely to disclose more information, in order to reduce the transaction costs of its customers.

H_4: Disclosure level of director and executive remuneration will be positively related with the extent of product market interaction of MNCs.

6.2.2 Control factors and the disclosure level of director and executive remuneration

In order to test the unique impact of multi-nationality on disclosure level of director and executive remuneration (dependent variable) it is important to include 'control' factors which influence the dependent variable. By having control variables, the net effect of the independent (explanatory) variables, namely multi-nationality factors, can be uniquely determined when other variables are also known to have an effect. Having controls also tests for spurious relationships between the dependent and independent variables and for confounding effects (Lewis-Beck et al., 2004, p.195).

As demonstrated in Chapter Four, both state regulatory mechanisms, such as change in law, as well as self-regulatory mechanisms such as norms and values of professional bodies to which firms are socialised (Fiss, 2008, Hill, 2005), can influence disclosure levels. Hence control variables included state regulation such as CLERP 9 and self-regulatory best-practices – the presence of a remuneration committee on company boards, independence of the remuneration committee, gender diversity of the board and board independence.

State-regulation: Hierarchical governance mechanisms engineered in Australia through canalising or regulatory reform (CLERP 9) in 2004 subjected both domestic and foreign multinational firms registered in Australia to come under the jurisdiction of Australian corporate laws. In 2002 state-regulation alone (under CLR Act 1998) was in force whilst in 2004 a mixed regulation (CLERP 9 and ASX code) guided remuneration disclosure. Therefore, disclosure practices are affected by amendments to the existing regulatory regime.

Remuneration committee: The presence of a remuneration committee can provide a powerful mechanism for a governance framework, within which the board can set remuneration policies, and align shareholder interests in a more transparent manner (Conyon and Peck, 1998, p.148). Therefore disclosure practices are affected by the presence of a remuneration committee.

Independence of remuneration committee: Another important remuneration governance mechanism is the practice of ensuring that a remuneration committee is able to exercise independent judgment regarding executive remuneration and incentive policies. Two contrarian proxies of the independence of remuneration committee are used in this study - the presence of non-executive directors and the presence of the firm CEO or steward on the remuneration committee.

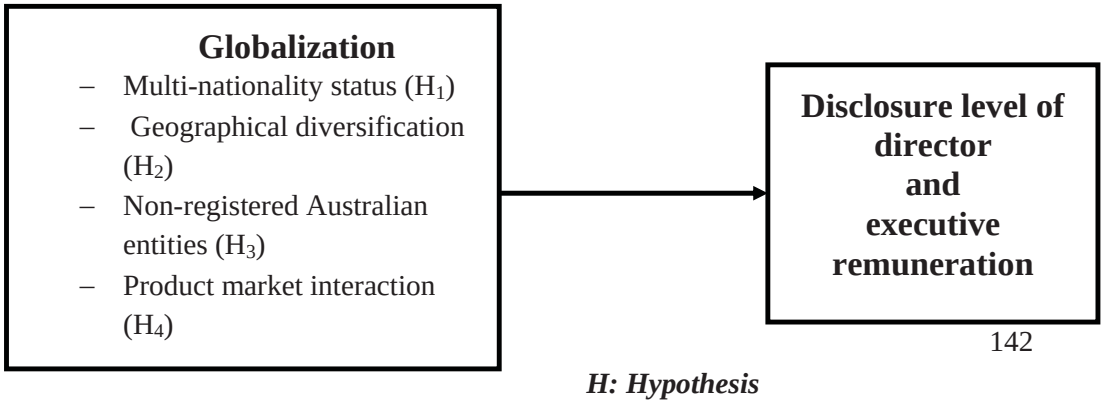
***Board gender diversity*:** Information management capacity is also driven by the new and unique perspectives provided by diverse members of the board. The number of female directors on the board increases board diversity and promotes board independence (Carter et al., 2010, Carter et al., 2003, Nalikka, 2009). Hence gender diversity can increase the board independence which can in turn boost the monitoring function of the board and improve the information management capability (Fama and Jensen, 1983b, Nalikka, 2009, Terjesen et al., 2009).

Board independence: The role separation between chairperson and CEO can enhance the effectiveness and independence of company boards (Jensen, 1993, p.866). Empirical studies by (Bassett et al., 2007, Forker, 1992) found that there is a positive and significant association between the level of corporate disclosure and role separation between CEO and chairperson.

6.2.3 Conceptualising the role of globalization with respect to disclosure level of director and executive remuneration

Figure 6.1 conceptualises the impact of globalization on disclosure level of director and executive remuneration. The impact of non-registered Australian entities which do not come under the jurisdiction of Australian corporate law, along with geographical breadth of the firms, and product market interaction in the host country, are also examined as illustrated in Figure 6.1.

Figure 6.1 Conceptualising the effect of globalization on disclosure level of director and executive remuneration



H: Hypothesis

6.3 Research methodology

As observed earlier, financial disclosure is an important component of a corporate governance system because it allows investors and other outside parties to monitor firm performance and contractual commitments (Bushman and Smith, 2001). Although there are several other critical elements besides financial reporting in a corporate governance system, such as the board of directors, shareholder rights, and top management remuneration, this narrow focus is likely to be useful in deepening understanding of the broader question of the impact of globalization on corporate governance (Khanna et al., 2004).

A relative disclosure index is used as the dependent variable. Cronbach's alpha was used to determine the reliability of the disclosure level of foreign MNCs and domestic firms. All data for dependent, independent and control variables were obtained from the publicly available information sources including the reports of company directors, annual reports, agendas of the annual general meetings and the minutes of the annual general meetings.

6.3.1 Sampling process and characteristics of sample firms

The sampling was performed in two different stages for analysing the level of disclosure practices of foreign MNCs and domestic firms. The sampling frame for the subsidiaries of the foreign MNCs consisted of 2178 listed entities of the ASX. In the first stage, 48 listed foreign MNC-subsidiaries were shortlisted from the ASX listed firms or sampling frame of this study as illustrated in Table 6.1. Among these firms, 29 firms met the sampling criteria of this study. The sampling criteria of this study take into consideration the following aspects: first, the firms which are listed during or after 2002 are not included; second, the listed trusts, mutual and superannuation fund management entities are excluded because these firms do not have an executive style of management

and have different reporting requirements; and finally, the firms which experience any abnormal activity that can affect their disclosure practices are excluded from the selection of the final sample of this research.

Table 6.1: Sampling process of foreign multinational firms

Total listed entities	2178
Total listed foreign multinational subsidiaries	48
Less firms listed during or after 2002	17
Less listed fund management entities	02
Final sample of foreign multinational subsidiaries	29

The second stage of the sampling process included the selection of domestic firms. The inclusion of domestic firms in the sample for the multivariate analysis enabled testing of the unique impact of multi-nationality on disclosure level of director and executive remuneration (dependent variable) vis-à-vis domestic firms. Domestic firms are those firms which did not have any operational subsidiary in an international market before 30th June 2010. The sampling frame for domestic firms consisted of the top 300 firms – Standard and Poor's or S&P/ASX 300 index firms - which were drawn from the target population of 2178 listed entities of the ASX. (S&P, 2010, p.5). Table 6.2 gives the information of domestic firms from the 294 firms the S&P/ASX 300 index as per the sample criteria discussed earlier. The final list of the sample firms is given in Appendix VI.

Table 6.2: Sampling process of domestic firms

Total listed entities of S&P/ASX 300 index	294
Less total listed Australian multinational firms	153
Less total listed foreign multinational firms	13
Less firms listed during or after 2002	87
Less listed fund management entities	09
Less firm with missing report[5]	01
Final sample of domestic firms	31
Grand total of research sample	**(29+31) = 60**

[5]The missing firm was requested to provide company reports and the response of the firm officials is provided in Appendix IV.

6.3.2 The empirical model

Equation 1 expresses the hypothesised relationship between the dependent variable and independent and control variables for a pooled multiple regression model.

$$D_{ijt} = \beta_0+\beta_1 LawPresence_{jt}+\beta_2 RemCommtt_{jt}+\beta_3 NonExecutivesonRemCommtt_{jt} +\beta_4 CEOonRemCommmtt_{jt}+\beta_5 Femalesonboard_{jt}+\beta_6 SeparateCEO_{jt} +\beta_7 ForeignMNCs_{jt} +\beta_8 NumberofCountries_{jt}+\beta_9 Non\text{-}registered_{jt}+\beta_{10} MNCsRevenue_{jt}+e_o \quad (1)$$

where D_{ijt} is the disclosure value for a disclosure index item i related to company j in year t ($t=2002$ *and* 2006) and e_o is the stochastic disturbance or error term and assumed to be independent and normally distributed with the same variance. The definitions of research variables are presented in Table 6.3.

The testing of this model through econometric analysis permits a comprehensive understanding of the unique impact of globalization factors over and above the controls of state regulation and self-regulation on disclosure level of director and executive remuneration. A set of multivariate analytical techniques are used to perform the analysis. Statistical Package for Social Sciences (SPSS) version 18 was utilised for data analysis.

Table 6.3 Definition of relative disclosure index, globalization factors and controls of state regulation and self-regulation

Variable name	Label	Variable definition
Relative disclosure index	Disclosure index	A measure of disclosure level of director and executive remuneration both in pre and post eras of Corporate Law Economic Reform Program 9 (CLERP 9). It is a ratio between the actual disclosure of each company in its annual report and the maximum level of disclosure it can exhibit.
Law presence	LawPresence	This variable records the presence of state regulation – CLERP 9; 1 for year 2006 and 0 for year 2002.
Presence of remuneration committee on company board	Rem Commtt	Indicator variable to record the presence of remuneration committee on company board and coded as: 0 =absent and 1= present.
Remuneration committee constituting of non-executive directors only	NonExecutives onRemCommtt	Indicator variable for the composition of the remuneration committee; 1, if a committee is solely comprised of non-executive directors and 0, if otherwise.
Presence of CEO on the remuneration committee	CEOonRem Commtt	This variable records the presence of CEO on the remuneration committee of the firms and coded as: 0 = not present and 1 = present.
Number of female directors on company board	Femaleson Board	This variable represents the level of gender diversity in the company board structure of sample firms. This aspect is measured by recording the total number of female directors on the company board of the firm.
Separate role of CEO and chairperson	SeparateCEO	Indicator variable to record the role separation between the company chairperson and chief executive officer (CEO) and coded as: 0 = no and 1 = yes.
Foreign multinational subsidiary	Foreign MNCs	Indicator variable for the type of firm; 1, if a firm is a foreign multinational subsidiary and 0, if otherwise.
Number of countries of operations	Number of Countries	This variable represents the level of geographical diversification of a firm. This aspect is ascertained by recording the total number of country(ies) in which a firm operate.
Non-registered Australian entity status	Non-registered	This variable records the registration status of a firm in Australia and coded as: 0 = registered in Australia and 1 = not-registered in Australia.

Product market interaction	MNCsRevenue	This interaction variable is a product of foreign multinational subsidiary and the log value of firm revenue in the host country – Australia.

6.4 Results and findings

6.4.1 Descriptive statistics

Table 6.4 illustrates that 48 percent of the total sample size represent MNCs for both years (2002 and 2006). The sample also included 3 percent non-registered Australian entities that did not come under the jurisdiction of Australian corporate laws.

Table 6.4 Descriptive statistics of dichotomous variables (N = 60)

	Frequency		Percentage	
Variable	**2002**	**2006**	**2002**	**2006**
Presence of remuneration committee on company board	38	50	63%	83%
Remuneration Committee constituting of non-executive directors only	26	39	43%	65%
Presence of CEO on the remuneration committee	8	9	13%	15%
Separate role of CEO and chairperson	54	55	90%	92%
Foreign multinational subsidiary	29	29	45%	45%
Non-registered Australian entity status	02	02	03%	03%

The mean and standard deviation values for number of countries of operations of the sample firms for both years – 2002 and 2006 are (8.25) and (14.21). For product market interaction, the mean values for years 2002 and 2006 are (2.55) and (2.66). The standard deviation values for years 2002 and 2006 are (2.83) and (2.96).

Table 6.5 Descriptive statistics of non-dichotomous variables (N= 60)

Variable	**2002**	**2006**
Number of female directors on company board	.30 (.53)	.48 (.68)
Number of countries of operations	8.25 (14.21)	8.25 (14.21)
Product market interaction	2.55 (2.83)	2.66 (2.96)

Table 6.6 presents the mean and standard deviation values of relative disclosure index (dependent variable) before (1997 and 2002) and after (2006) the introduction of the mixed regulatory regime.

Table 6.6 Descriptive statistics of relative disclosure index (N= 60)

Variable	Mean		Minimum		Maximum	
	2002	**2006**	**2002**	**2006**	**2002**	**2006**
Relative disclosure index	.24 (.05)	.56 (.16)	.06	.25	.39	.86

The mean value of relative disclosure index for year 2002 was .24 and for 2006 was .56. These mean values indicate an incremental change of more than 32 percent after the enactment of a mixed regulation engineered through collibration.

6.4.2 Key determinants of disclosure level of the foreign MNCs vis-à-vis domestic firms

The distinctive impact of multinationality factors on disclosure level can be observed in a pooled moderated multiple regressions model (Gujarati, 1995). The pooling of data increases the degrees of freedom and also improves the precision of estimates and increases the power of tests of hypotheses. Table 6.7 presents the pair-wise Pearson product-moment correlation coefficients of the variables with three levels of significance as $p <= .01$; $p <= .05$ and $p <= .10$ for the pooled model. Gujarati (1995) and Tabachnick and Fidell (2001) recommends that statistical problems which are created by collinearity and singularity can take place at a higher bivariate correlation of .90 and above. The correlation coefficients values show that there is no serious problem of multicollinearity because all the values of r^2 between two variables are less than .90 except for the moderated variable i.e. product market interaction. Variance inflation factors (VIFs) and tolerance values for each variable are computed and shown in Tables 6.7. The VIFs and tolerance values also did not indicate any problems of multicollinearity as the values of tolerance were greater than

.10 and tolerance values were less than 10 except for the product market interaction variable (Pallant, 2005, p.150). Similar problems surrounding interaction variables have been reported by Blanchard (1987, p.449). Shieh (2010) argues that multicollinearity is not detrimental in detection of moderating effects.

Table 6.7 Pearson correlation coefficients and collinearity statistics (N = 120)

	Variables	1	2	3	4	5	6	7	8	9	10	11	Tolerance	Variance inflation factor
1	Disclosure index	1												
2	Law presence	.79***	1										.92	1.09
3	Presence of remuneration committee on company board	.40***	.23**	1									.20	5.08
4	Remuneration committee constituting of non-executive directors only	.32***	.22**	.66***	1								.17	6.01
5	Presence of CEO on the remuneration committee	.06	.03	.25**	-.44***	1							.27	3.76
6	Number of female directors on company board	.34***	.15†	.29***	.21*	.14†	1						.78	1.28
7	Separate role of CEO and chairperson	.11	.03	.20*	.17*	.05	.20*	1					.62	1.61
8	Foreign multinational subsidiary	.08	.00	.17*	.12†	-.01	.20*	-.10	1				.03	29.51
9	Number of countries of operations	.14†	.00	.15†	.11	-.01	.11	.05	.53***	1			.45	2.22
10	Non-registered Australian entity status	.05	.00	.11	.08	-.08	.19*	-.26**	.19*	-.04	1		.61	1.63
11	Product market interaction	.17*	.02	.30***	.21*	.03	.26**	.02	.96***	.62***	.24**	1	.03	37.44

***significant at p<=.001; **significant at p<=.01; *significant at p<=.05; and †significant at p<=.10

Table 6.8 presents the overall impact of independent variables on disclosure level of director and executive remuneration [Model: R^2 =.77, adjusted R^2 =.75 and p < .001] in Table 6.8. In brief, the results show that on the one hand disclosure level is significantly but negatively associated with multinationality; one the other, disclosure level is significantly and positively associated with product-market interaction of MNCs in Australia. Another interesting finding is the negative relationship between non-registered Australian entities and disclosure level of director and executive remuneration. Among the control variables, state regulation and self-regulatory practices such as the existence of a remuneration committee and board diversity are significantly associated with the disclosure of information. The results vis-à-vis the proposed hypotheses are discussed in turn.

A positive association between multi-nationality status and disclosure level of director and executive remuneration was hypothesised in H_1. Contrary to this prediction, the results show that foreign MNCs have a negative and significant relationship (Foreign Multinational Subsidiary: p < .001, with β = -1.15) with disclosure level of director and executive remuneration. In other words, the incidence of multinational ownership leads to a more that 115 percent reduction in the level of disclosure information. Hence this finding runs counter to our hypothesis that MNCs' supposedly more robust system of corporate governance would enable them to respond to increased disclosure requirements in Australia. From the results it appears that in comparison to local entities, other things being equal, MNC managers do not positively respond to the elevated standards of corporate governance through the introduction of mixed regulation in Australia. It is plausible that the MNC-subsidiary's information disclosure is geared more towards the MNC-parent country's needs rather than to the mixed regulatory regime in Australia. Tailoring information disclosure country by country would perhaps go against principles of integrity within the MNC and hence not be attempted by subsidiary executives. These findings with respect to multinationality factors were opposite to

the propositions of this study which were based on the studies of (Riahi-Belkaoui, 2001, Cahan et al., 2005, Khanna et al., 2004, Meek et al., 1995) who found a positive relationship between globalization factors and level of corporate disclosure.

Also, a negative association between non-registered Australian entity status and disclosure level of director and executive remuneration (Non-registered Australian entity status: $p < .05$, with $\beta = -.12$) is discernible from these results. This negative and significant result is in accordance with the proposition of this study made in H_3 which predicted that firms that do not come under the jurisdiction of Australian corporate law have to operate within the institutional context of the country of their registration and do not adhere to the local institutional context. The other multinationality factor measured by the number of countries in which a firm operates did not show a significant association with disclosure level of director and executive remuneration as proposed in H_2.

An interesting result is the positive association between MNC product-market interaction and disclosure level of director and executive remuneration as hypothesised in H_4. Confirming this prediction, the product market interaction variable (Foreign Multinational Subsidiary X Revenue) has a significant and positive coefficient (Product market interaction: $p < .001$, with $\beta = 1.27$) – which signifies that increase in product interaction in the host environment will be associated with a similar magnitude of increase in disclosure level, as illustrated in Table 6.8.

Based on these results, the research question whether MNC-subsidiaries are responsive to increased disclosure requirements emanating from regulatory laws and norms in host countries needs to be answered with some caution. It appears that MNC-subsidiaries do not make an extra effort to produce better disclosure of director and executive remuneration when they do not have a large presence in the host country. In other words, an MNC would invest in installing mechanisms to conform to the increased requirements of

disclosure in the host country when its product-market interaction reaches a certain critical level. Hence a MNC that wishes to signal its increased commitment to the host country is the one which is likely to have better disclosure to attract customers and investors.

Larger geographic spread was not associated with superior arrangements of remuneration governance to address distinctive moral hazard agency conflicts in MNCs (Alpay et al., 2005, Luo, 2005). With respect to domestic firms, it has been argued that domestic firms have higher total and systemic risks than MNCs (Michel and Shaked, 1986). This increased risk exposure can compel domestic firms to produce better disclosure than multinational firms, to subside higher risks. In sum, governance arrangements of foreign MNCs can intensify the agency problems as evident from the analysis of disclosure practices.

Table 6.8 Results of multiple regression pooled analysis (N=120)

Law presence	.74***
	(15.16)
Presence of remuneration committee on company board	.18†
	(1.74)
Remuneration committee constituting of non-executive directors only	-.16
	(-1.41)
Presence of CEO on the remuneration committee	-.16†
	(-1.74)
Number of female directors on company board	.19***
	(3.57)
Separate role of CEO and chairperson	-.12*
	(-1.98)
Foreign multinational subsidiary	-1.15***
	(-4.51)
Number of countries of operations	-.07
	(-.93)
Non-registered Australian entity status	-.12*
	(-2.02)
Product market interaction	1.27***
	(4.42)
R^2	**.77**
Adjusted R^2	**.75**

***significant at p<=.001; **significant at p<=.01; *significant at p<=.05; and †significant at p<=.10

6.5 Summary

Agency theory argues that multinational firms face increased level of information asymmetries due to spatial complexities (Windsor, 2009, Zaheer, 1995). The empirical analysis presented here examined the hypothesis that MNCs are likely to be more responsive to the increased disclosure requirements in Australia brought about by CLERP 9 and ASX reforms due to their superior corporate governance systems. The analysis of level of disclosure of MNC-subsidiaries suggests that, other things being equal, MNCs are less responsive to increased disclosure requirements than their local counterparts in Australia, unless they have substantial interactions with Australian product markets.

The introduction of an improved regime in Australia, while effective for Australian enterprises, does not appear to be effective in coercing MNC-subsidiaries operating in Australia to respond to the improved regime of disclosure. Notwithstanding this negative association, it is perhaps unwise to unequivocally draw the conclusion that MNCs are generically unresponsive to local standards of governance. What these results do demonstrate is that MNCs are willing to incur the marginal cost of increasing disclosure, if the benefits of increasing disclosure level justify it: that is, there must be a certain degree of demand for information from customers in product-markets that will justify the extra effort.

There are several potential limitations of the study that warrant caution in interpreting the results. First, being only a single country study, the results cannot be generalised and a larger random sample of countries needs to be tested before the plausibility of the hypothesis can be confirmed. Second, the dataset contains only two years of data and hence the hypotheses need to be tested across a greater number of years. A third limitation is that the sample of 60 firms, after satisfying the criteria of foreign MNC status from the all of the listed entities of the ASX, is not a large sample.

This chapter focused on level of disclosure of director and executive remuneration of MNCs following the increased disclosure requirements of mixed regulation consisting both state regulation and self-regulation. In order to have greater relevance and generalisability, further work remains to be done to confirm the hypotheses contained in this research. Globalised firms experience distinctive moral hazard agency conflicts and the lack of appropriate mechanisms for addressing these conflicts can result in remuneration governance which may be out of line with local country norms, as evidenced in this research. It would of course be interesting to study how MNCs would respond if globalization resulted in complete convergence of governance systems throughout the world, i.e., if other regimes also demanded similar disclosure requirements. For now, these results imply that when MNCs are faced with a different national corporate governance system such as the one in Australia, they may be less responsive to improved disclosure requirements than local firms.

Chapter Seven: Conclusions and implications

7.1 Introduction

This study was motivated by the research question 'what approach should be adopted to develop a regulatory framework for corporate governance that aligns state regulation designed to protect shareholder interests with market oriented self-regulation?' Drawing on the concept of collibration, an approach to managing tensions between opposing forces in a social arena through government intervention, it was predicted i) in market based economies, the government's approach to managing conflicts in corporate governance to restore investor confidence will involve collibration rather than imposition of substantive compulsory standards and ii) collibration would enable complementing state regulation with self-regulation, two seemingly competing mechanisms, to establish a mixed regulatory framework for corporate governance. Based on a before and after research design, the empirical framework examined whether the shift to mixed regulation had improved disclosure and its relationship with remuneration practice in Australian firms between 1997 and 2006. The results of econometric analysis showed that remuneration disclosure levels had improved significantly after the introduction of the mixed-regulatory regime in 2004.

This concluding chapter is divided into six main sections. Section 7.2 provides a summary of the main findings of the application of collibration in Australia. The main conclusions from this research are presented in section 7.3. Section 7.4 presents theoretical implications of this research, followed by practical implications for both policymakers and business managers in section 7.5. Section 7.6 summarises the research limitations. The suggestions for future research along with the study synopsis are presented in section 7.7.

7.2 Disclosure level of director and executive remuneration in Australia

The review of the small existing literature in this area in Chapter Three focused on agency conflicts and different governance options for solving agency problems in a modern firm. The theoretical discussions and empirical evidence illustrated the difficulty of current contractual governance mechanisms to relieve agency problems (Hill, 2006). During periods of corporate collapses and global financial crises, market-based mechanisms become especially problematic. If, as was the case in the last decade, executive remuneration itself has emerged as an agency problem, these difficulties are exacerbated (Coffee, 2004, Gordon, 2002, Hill, 2005, Hill, 2006, Miller, 2004). Therefore, the question was what approach is to be adopted in developing a regulatory framework that brings about changes in behaviour oriented self-regulation for better corporate governance?

7.2.1 Collibration in Australia

This research draws on the concept of collibration, as an approach to managing tensions between opposing forces in a social arena through government intervention (Letza et al., 2004). As a social practice, corporate governance is shaped by diverse interests, and therefore calls for a flexible approach to its regulation. Collibration entails taking part in a balancing process to actively engage with, and allow interaction between social groupings for conflict management – usually mediated via government intervention designed for market manipulation instead of any strict external fiat on market activities (Kirkbride and Letza, 2004, p.89, Dunsire, 1993a). Above all, collibration extends the debate beyond the traditional focus on the choice between state regulation and self-regulation as two ends of a spectrum.

Chapter Four charts the application of a collibratory process in Australia that brought about behaviour-oriented reforms by strengthening the link between state regulation and

market-based regulation. The evidence presented illustrates how Australia developed a mixed regulatory framework that aligned state regulation (CLERP 9) with market oriented self-regulation (ASX Principle 2003) through collibratory techniques (canalising and formalising) to bring about better level of disclosure of director and executive remuneration. Designed as an incremental step towards improving the bargaining position of shareholders, CLERP 9 initiated the provision of remedial information and an annual non-binding shareholder vote. As a collibratory intervention, the provision of remedial information via CLERP 9 did not involve imposition of an external standard such a salary cap or restricting the use of pay-for-performance model or policy prescription to determine and design executive remuneration. CLERP 9 assisted shareholders to price the risk associated with the given agent, and facilitated better informed decisions regarding future transactions with an organisation, *without* removing the risk since it did not interfere with the existing market-based mechanism for determining remuneration. CLERP 9 was therefore an example of canalising, a technique of collibration.

Similarly, the non-binding vote provision represented a controlled shift of the position of equilibrium towards the shareholder by increasing their participation in the remuneration setting process and provided them with the opportunity to raise their concerns about director and executive remuneration via an advisory vote – a 'say on pay' phenomenon. This is a further indicator that CLERP 9 was a collibratory intervention that was designed to improve the bargaining position of the shareholder without destroying the existing market-based mechanisms for setting remuneration. In essence, as a collibratory intervention it allowed managing opposing forces without destroying the existing tension between them. The fact that the vote was non-binding meant that control of the remuneration package remained with the board, even while the state required more shareholder input. In this way, these regulatory reforms through canalising enabled the state to improve the corporate disclosure regime to

restore investor confidence and at the same time supported existing market oriented self-regulatory practices preferred by corporations.

In the collibratory approach, the law typically determines what information is to be disclosed, but in the interest of upholding principles of a free market, state regulation does not prescribe nor monitor practices adopted by firms for disclosure. Herein, although industry may recommend best practices for effective disclosure, in the absence of a formalised system of self-regulation, it is difficult to monitor or obtain reliable information regarding firm situation or their reasons for failing to implement recommended practices. An effective framework for regulating disclosure is therefore likely to comprise a mix of state regulation and a formalised system of industry led self-regulation where the latter can monitor implementation of recommended practice. An example of this can be seen in Australian state intervention to support the ASX's role in establishing the Corporate Governance Council, representing 21 different business, investment, and shareholder associations, in 2002.The Council provided a common platform to communicate, develop, and enforce corporate governance standards for a common purpose – self-regulation. Thus through formalising, the Government facilitated the creation of an organized forum led by the ASX which enabled creating discourse amongst diverse actors with conflicting interests, and developed a practical framework for self-regulation which had acceptance both in industry and shareholder groups. The ASX Principles and self-regulatory codes of practice, achieved through formalising, guided the design of the subsequent state regulation embodied in CLERP 9 – enabling state regulation to be linked with self-regulation. Such a collibratory approach towards managing the tensions between proponents of state regulation and market-based regulation reduced the resistance from business to CLERP 9. Thus CLERP 9 and ASX Principles 2003, which were introduced within a relatively short time frame in response to the various corporate collapses

in Australia, were two distinct forms of regulation that complemented each other to provide a framework for mixed regulation.

7.2.2 The impact of mixed regulation in Australia

In Chapter Five the hypothesis tested was that a mixed regulatory framework would be more effective than state based regulation alone in implementation of recommended practices to achieve better remuneration disclosure. Using univariate and multivariate analyses, disclosure levels were compared to determine the efficacy of mixed regulation. The results of both non-parametric and parametric analyses showed that disclosure level was significantly higher after the introduction of mixed regulation. The substantial change implies that disclosure behaviour is highly sensitive to an altered regulatory framework, as an outcome of firms responding to the mixed regulation by adjusting their governance practices to meet the disclosure requirements mandated under CLERP 9. The results suggest that the implementation of mixed regulation through collibration appears to have catalysed the adoption of behaviour-based contractual governance mechanisms recommended for improving the level of disclosure information. A positive and significant relationship between the presence of a remuneration committee and the disclosure level of director and executive remuneration was found. With the implementation of a formalised system of self-regulation under ASX Principles 2003, ASX listed firms were obliged to provide an explanation when they did not implement a recommended practice. The provision of such an explanation under ASX 2003 resulted in greater transparency regarding firm situation, and led to improved adoption of best practices. Second, there was the positive association between role separation of CEO and chairman and disclosure level of director and executive remuneration. This result demonstrates that board independence can alleviate agency problems, whereas role duality can cause agency problems to rise because one person dominates the board functions and restricts the flow of information to other stakeholders - leading to lesser information being

disclosed (Ho and Wong, 2001). Third, a negative association was found between the presence of the CEO on the remuneration committee and disclosure level of director and executive remuneration. Once again, this result demonstrates that independence of the remuneration committee can ensure better disclosure of director and executive remuneration. Fourth, a positive and significant association between the number of female directors on the remuneration committee and level of remuneration disclosure highlights the importance of gender diversity in producing a better level of disclosure. Last but not least, a negative association between the presence of a remuneration consultant and level of disclosure information was in contrast with the results of the same variable in the era before mixed regulation. This negative association implies that there is a potential for agency problems in the deployment of remuneration consultants. These results provide strong support for the proposition that collibration presents a contemporary approach that is relevant for the emerging politics of corporate governance in the new world of globalization (Braithwaite, 2008, Levi-Faur, 2005). The empirical results demonstrate that a mixed regulatory regime is more effective than state regulation alone for improving disclosure level of director and executive remuneration and implementation of recommended practices for better protection of shareholders' interests.

As an extension of this empirical study, the impact of mixed regulation was tested on the disclosure behaviour of MNC-subsidiaries in Australia in Chapter Six by uncovering how multi-nationality could affect disclosure level of director and executive remuneration. Agency theory propounds that multinational firms face an increased level of information asymmetries due to spatial complexities (Windsor, 2009, Zaheer, 1995). The empirical analysis presented in Chapter Six examined the hypothesis that MNC-subsidiaries are likely to be more responsive to increased disclosure requirements in Australia due to their superior corporate governance systems needed to address an increased level of information

asymmetries. The analysis of disclosure level of MNC-subsidiaries instead suggests that, other things being equal, MNCs are less responsive to increased disclosure requirements than their local counterparts in Australia unless they had substantial interactions with Australian product markets. This aspect is also evident from the negative association between non-registered Australian entity status (a proxy of foreign multi-nationality) and disclosure level of director and executive remuneration. In sum, the introduction of an improved regime in Australia, while effective for Australian enterprises, does not appear to be effective in getting MNC-subsidiaries operating in Australia to respond to the improved regime of disclosure. Notwithstanding this negative association, it is perhaps unwise to unequivocally draw the conclusion that MNCs are generically unresponsive to local standards of governance. What these results do demonstrate on the other hand is that MNCs are willing to incur the marginal cost of increasing disclosure if the benefits of increasing disclosure level justify it: that is, there must be a certain degree of demand for information from customers in product-markets in order to justify the extra effort.

7.3 Main inferences

The incidence of widespread corporate collapses and the recent global financial crisis have called for greater transparency and better protection of investors through state regulation of corporate governance. However corporate governance, being a social activity that is influenced by diverse social actors and interests, needs a flexible approach towards its management. This study demonstrates that state regulation alone is inadequate to address remuneration governance problems and a mix of state regulation and self-regulation can improve disclosure practices. The analysis demonstrates that collibration can act as an effective tool to develop a regulatory framework that aligns state regulation designed to protect shareholder interests with market oriented self-regulation. A mixed regulatory regime can be more effective than a single mode for addressing moral hazard agency conflicts by

minimising problems of information asymmetry. The empirical evidence confirms that corporate governance needs both the visible and the invisible hands of the market to reinforce each other. Furthermore, this study rejects the 'either-or' approach towards modern economic management and regulation, instead demonstrating the complementarities between state regulation and self-regulation.

7.4 Theoretical implications

Thus far, apart from the pioneering work of (Kirkbride and Letza, 2003, Kirkbride and Letza, 2004, Kirkbride et al., 2005, Letza et al., 2004), little was known about the salience of collibration as a framework of corporate governance. This study operationalises the concept of collibration and demonstrates its application in the Australian context. It makes a useful contribution through an in-depth examination into the stages and actors of the collibratory intervention involving the balancing of tension between conflicting forces. Above all, this research demonstrates that collibration can be a useful theoretical construct to draw on when developing a regulatory framework for corporate governance that aligns state regulation designed to protect shareholder interests with market oriented self-regulation.

Another novel contribution of this study is the examination of the impact of mixed regulation on alleviation of agency conflicts. Thus far there has been no empirical investigation that conceptualised and studied the effectiveness of mixed regulation over state regulation for addressing moral hazard agency conflicts. This investigation conceptualised the key determinants of disclosure level of director and executive remuneration and examined the impact of these factors pre-and post-mixed regulation.

This is also one of the few studies which present comprehensive analysis of disclosure of director and executive remuneration after the enactment of mixed regulation in Australia. Earlier studies, for instance (Bassett et al., 2007, Clarkson et al., 2006, Coulton et al., 2001, Liu and Taylor, 2008, Nelson et al., 2010), have analysed the remuneration disclosure level

before the enactment of the mixed regulatory regime. This inclusive analysis of disclosure level of director and executive remuneration before and after this enactment makes the contribution of this study unique. As well, the analysis of disclosure level of MNC-subsidiaries is a pioneering study which examines the responsiveness of MNC-subsidiaries vis-à-vis domestic firms to the increased disclosure requirements in Australia.

The empirical contribution of this study also lies in its articulation of the weaknesses of market oriented outcome-based mechanisms to relieve agency problems, especially during corporate collapses and global financial crises (Coffee, 2004, Gordon, 2002). This study demonstrates that behaviour-oriented governance mechanisms can be calibrated to address the agency problems caused in the wake of excessive reliance on outcome-oriented mechanisms in capitalist economies. Collibration can bring about a shift from outcome-based to a behaviour-based mode of corporate governance.

7.5 Practical implications

The findings of the present research provide practical implications for both policymakers and business managers.

7.5.1 Implications for policymakers

One of the important implications for policymakers of this study is the significance of priming the social arena through formalising by active engagement of diverse and conflicting market forces prior to introducing a state based legislation. Priming appears to have facilitated implementation of CLERP 9 and to have achieved better disclosure outcomes in contrast to earlier legislations such as CLR Act 1998, which was not preceded by such an extensive consultative process. These findings closely echo views expressed in other studies that an extensive consultative process in the making of CLERP 9 ensured greater effectiveness in its implementation and the alignment of regulation with market and investor demands (Sheehan, 2009). Also, understanding the linkage between state and self-regulation

can strengthen corporate governance by addressing the inadequacies of both modes of regulation. Therefore this study underscores the need for policymakers to appreciate the scope for a synergistic and collaborative interaction between two diverse modes of regulation.

7.5.2 Implications for business managers

A significant contribution of this study lies in its construction of a comprehensive disclosure index which may be useful for financial analysts and industry researchers as a measurement instrument to ascertain disclosure level of director and executive remuneration in Australia. As well, firms that do not come under the jurisdiction of the Australian regulation can use this disclosure index as a benchmarking tool. The use of the disclosure index can also assist firms of developing nations to improve their transparency level by deploying an international disclosure benchmark.

Another implication for business managers is that caution should be applied when confronted with decisions about whether or not to reject government efforts for improving corporate governance. Modern governments, particularly in Western democracies that manage capitalist economies, appear to be relatively more responsive to the dynamic needs of modern businesses operating in a globalised world. If anything, the findings of this research highlight the need for business managers, particularly of MNC-subsidiaries, to engage with government as well as take part in constructive dialogue to improve the existing practices of corporate governance with other relevant industry associations.

7.6 Research limitations

Like other empirical studies, this study has certain limitations which constrain the generalisability of its findings. First, the sample size of the study included only large publicly listed firms that came under the jurisdiction of Australian corporate law and the ASX listing rules but not smaller, private and non-Australian firms. Hence caution needs to be applied

when attempting to generalise the results for other types of small and medium firms. Second, being a single country case study, it does not make comparisons with the disclosure practices of firms in other countries. Third, this study has not taken into account other important corporate governance practices such as ownership structure, demographic and educational backgrounds of executive and non-executive directors, director interlocking, presence and structure of audit committees and other firm-level corporate governance factors which could also explain variances in disclosure level. Finally, in addition to disclosure practices, it would have been useful to examine the effect of collibration on firm performance. These limitations imply directions for further research.

7.7 Future directions

The Australian evidence acts as a reference point for cross-country comparative studies which are becoming increasingly significant in the current climate of globalization of capital markets. A larger sample base of Australian firms can be included for the analysis of disclosure level of director and executive remuneration of non-S&P/ASX index firms as well as smaller firms. There also need to be more case studies that describe in detail the impact of better level of disclosure on different stakeholders – in particular how it has enhanced their welfare. For instance, attitude measurement of shareholders, financial analysts, company officials and regulatory bodies can also present a comprehensive perspective of different stakeholders. Finally, the effect of collibration on firm performance can also augment the relevance of collibration as a modern approach to corporate governance.

In sum, this study presents collibration as a contemporary approach that can meet the challenges of the emerging politics of corporate governance in the modern world of globalization (Braithwaite, 2008, Levi-Faur, 2005). Although this research was conducted in Australia, its findings have implications for other capitalist economies which hold protection of the rights of owners and shareholders as an important agency issue. This research therefore

sheds light on the applicability of collibration as an effective approach for providing an optimal governance framework for modern corporations in market economies.

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Appendix I: Results of full text search on electronic databases

Search keyword: Collibration

Authors	Paper title and year of publication	Paper keywords	Type of paper	Discussion about 'disclosure /level'	Word count for collibration
James Kirkbride and Steve Letza	Regulation, governance and regulatory collibration: Achieving an "holistic" approach. (2004)	corporate governance, regulation, markets, collibration	Empirical	No	26
James Kirkbride and Steve Letza	Establishing the boundaries of regulation in corporate governance: Is the UK moving toward a process of collibration? (2003)	corporate governance; self-regulation; best practice; Great Britain; rules	Empirical	No	08
Christopher Hood	Which contract state? Four prospectives on over-outsourcing for public services. (1997)	contracting out; public administration; public contracts; other general government support	Conceptual	No	06
Bob Jessop	State-and Regulation-theoretical perspectives on the European Union and the failure of the Lisbon agenda. (2006)	European Union, governance failure, knowledge-based economy, Lisbon Agenda, multi-level governance, open method of coordination (OMC), regulation approach, state formation	Conceptual	No	04
Hans van Ees, Jonas Gabrielsson and Morten Huse	Toward a behavioral theory of Boards and corporate governance. (2009)	corporate governance, board processes, board composition, board leadership, board of director issues	Review	No	01
Irvine Lapsley	The NPM agenda: Back to the future. (2008)	new public management; public administration; management; government policy; social security; administrative law; other general government support	Empirical	No	01
Perri 6	Joined-up government in the western world in comparative perspective: A preliminary literature review and exploration. (2004)	not supplied	Empirical	No	01

Perri 6	Institutional viability: A Neo-Durkheimian theory. (2003)	research and development in the social sciences and humanities; public institutions; policy sciences; theory; statics & dynamics (social sciences)	Conceptual	No	01
Ian Thynne	Making sense of public management reform 'drivers' and 'supporters' in comparative perspective. (2003)	public administration; other general government support; political science; political change	Empirical	No	01
Habib Zafarullah and Ahmed Shafiqul Huque	Public management for good governance: reforms, regimes, and reality in Bangladesh. (2001)	public administration; bureaucracy; government policy; interorganizational relations; corruption; Bangladesh; other general government support	Empirical	No	01
Andrew Dunsire	Administrative theory in the 1980s: A viewpoint. (1995)	public administration; Great Britain; other general government support	Review	No	01
Richard Parry, Christopher Hood and Oliver James	Reinventing the treasury: Economic rationalism or an econocrat's fallacy of control. (1997)	expenditures, public; decision making; public finance activities	Empirical	No	01
Clive Smallman	In search of relevance: conventional or critical management inquiry? (2006)	critical management, research	Conceptual	No	04
Paul Corrigan and Paul Joyce	Reconstructing public management: A new responsibility for the public and a case study of local government. (1997)	Not supplied	Conceptual	No	01
Clive Smallman	The process of governance: Through a practice lens. (2007)	corporate governance, regulation	Conceptual	No	10
Bettina Lange	Economic appraisal of law-making and changing forms of governance. (2000)	Not supplied	Book review	No	03
Christopher Hood	Control over bureaucracy: Cultural theory and institutional variety. (1996)	Not supplied	Conceptual	No	01
Colin Scott	Accountability in the regulatory state. (2000)	Not supplied	Conceptual	No	02
Göktuğ Morçöl	A Meno Paradox for Public Administration: Have We	Not supplied	Review	No	01

	Acquired a Radically New Knowledge from the "New Sciences"? (1997)				
Peter Vincent-Jones	Values and purpose in government: Central-local relations in regulatory perspective. (1997)	Not supplied	Empirical	No	01
Julia Black	Regulatory Conversations. (2002)	Not supplied	Conceptual	No	01
Julia Black	Regulation as facilitation: Negotiating the genetic revolution. (1998)	Not supplied	Conceptual	No	01
Lisa Interligi	Compliance culture: A conceptual framework. (2010)	Culture, compliance, regulation, risk, ethics	Conceptual	No	01
James Kirkbride, Steve Letza and Clive Smallman	Minority shareholders and corporate governance: Reflections on the derivative action. (2009)	Stakeholder analysis, corporate governance, United Kingdom, China, United States of America, shareholders	Empirical	No	01
James Kirkbride, Steve Letza and Xiuping Sun	Corporate governance: Towards a theory of regulatory shift. (2005)	corporate governance, rent-seeking, regulation, theory of the firm	Empirical	No	08
Steve R. Letza, Clive Smallman and Xiuping Sun	Reframing privatisation: Deconstructing the myth of efficiency. (2004)	Not supplied	Empirical	No	02
Andrew Dunsire	Tipping the balance: Autopoiesis and governance. (1996)	Not supplied	Conceptual	No	NA

Search keyword: mixed regulation or co-regulation, state regulation, self-regulation

Authors	Paper title and year of publication	Paper keywords	Type of paper	Discussion about 'disclosure level'	Word count for mixed regulation or co-regulation
Jan Zielonka	Plurilateral governance in the enlarged European Union. (2007)	Not supplied	Conceptual	No	02
Steven Bailey	The regulatory toolbox. (2009)	legislation; legislative bodies; private sector; trade regulation; legislative bodies; legislators; economic aspects	Review	No	01
Dimity Kingsford Smith	Beyond the rule of law? Decentered regulation in online investing. (2004)	Electronic trading of securities – law and legislation, trade regulation, commercial law, electronic commerce, internet, data processing, hosting	Empirical	No	01
Philipp Pattberg	The influence of global business regulation: Beyond good corporate conduct. (2006)	Trade regulation, international business enterprises, self regulation, certification, standards, non-governmental organizations, business enterprises, codes of ethics	Empirical	No	03
Anne Tallontire	CSR and regulation: Towards a framework for understanding private standards initiatives in the agri-food chain. (2007)	Social responsibility of business, agricultural industries, value analysis (cost control), corporate governance	Empirical	No	02
Stephen D. Sugarman	Performance-Based Regulation: Enterprise responsibility for reducing death, injury, and disease caused by consumer products. (2009)	Consumer goods, commercial products, externalities (economics), taxation, commodity contracts dealing, commodity contracts brokerage	Empirical	No	01
Andrew Brown	Advertising regulation and co-regulation: The challenge of change. (2006)	Advertising laws, self-regulation; broadcast advertising,	Empirical	No	03

		communication in marketing, mass media, consumer confidence			
Ian Bartle and Peter Vass	Self-regulation within the regulatory state: Towards a new regulatory paradigm? (2007)	Self regulation, regulatory reform, state regulation, Great Britain, public interest, social policy	Conceptual	No	02
Lawrence J. Lad and Craig B. Caldwell	Collaborative standards, voluntary codes and industry self-regulation: The role of third-party organisations. (2009)	Competition, international, regulatory reform, organization, social movements, political activists	Conceptual	No	01
Cristie Ford	Principles-based securities regulation in the wake of the global financial crisis. (2010)	Securities industry, global financial crisis, critical success factor, securities markets, Canada; regulation, investment banking and securities dealing, securities and commodity exchange	Empirical	No	04
Saule T. Omarova	Wall street as community of fate: Toward financial industry self-regulation. (2011)	Financial services industry, self-regulation, finance, regulated industries, financial risk, United States	Empirical	No	03
Karen A. Shire, Hannelore Mottweiler, Annika Schönauer, and Mireia Valverde	Temporary work in coordinated market economies: Evidence from front-line service workplaces. (2009)	Call centers; temporary employees; industrial relations, Europe; telemarketing bureaus and institutional theory, surveys	Empirical	No	04
Paul Verbruggen	Does co-Regulation strengthen EU Legitimacy? (2009)	Europe, European union, legitimacy of governments, political stability, political systems, social systems	Empirical	No	90
Lazzarini and Mello	Governmental versus self-regulation of derivative markets: examining the U.S. and	Regulation; Self-regulation; Derivative exchanges	Empirical	No	NA

	Brazilian experience. (2001)				
Stephen Craig Pirrong	The self-regulation of commodity exchanges: The case of market manipulation. (1995)	Not supplied	Empirical	No	NA
Hendrik S. Houthakker	The Regulation of Financial and Other Futures Markets. (1982)	Not supplied	Conceptual	No	NA

Appendix II: Disclosure index

Disclosure index category	Disclosure index item description	Disclosure level ranking details	Legal section(s)
General disclosure of director and executive remuneration	1. Total amount of salary, fees and commissions; cash-profit sharing and bonuses; and non-monetary benefits of executive and non-executive directors. (Primary benefits)	0 = No details 1 = Aggregated 2= Disaggregated	S 300 (A) (1) (c) including AASB 1046 and AASB 124.
	2. Total amount of any remuneration for pension and superannuation; prescribed benefits; and other termination benefits of executive and non-executive directors. (Post-employment benefits)	0 = No details 1 = Aggregated 2 = Disaggregated 3 = Disaggregated and details regarding retirement plans and/or allowances including actual conditions or obligations	
	3. Long term incentive schemes with total value of shares and units; value of options and rights; and value of other equity remuneration of executive and non-executive directors. (Equity remuneration)	0 = No details 1 = Aggregated 2 = Disaggregated 3 = Detailed discussion about each scheme and performance conditions attached to it	
	4. Details of options for executive and non-executive directors with respect to the number of options and rights granted and vested; and particular terms and conditions of each share options including value, exercise price, amount paid/payable by recipient, expiry date and the date from which the option may be exercised; and summary of service and performance criteria upon which the award or exercise is conditional. (Options valuation details)	0 = No details 1 = General discussion about option grants. 2 = Valuation method and option value disclosed 3 = Valuation method and option value disclosed along with valuation model input (exercise price, expiry date, exercise date, volatility)	
	5. All other benefits of executive and non-executive directors including prescribed and other benefits. (Other remuneration benefits)	0 = No details 1 = Aggregated 2 = Disaggregated 3 = Disaggregated with detailed discussion	

Pay-for-performance model disclosure	6. Remuneration policy for the following financial year and subsequent financial years highlighting the following factors: i) Key factors influencing remuneration policy. ii) Labour market conditions. iii) Benchmarking of remuneration package against other companies and details of those companies. iv) Explanation of salary increases. v) Wider context of all employee reward. vi) Explanation of any proposed changes in the remuneration plan and policy in the following financial year.	0 = No explanation 1 = Broad summary including one or two factors only 2 = Some details which include three or four factors 3 = Greater or good level of detail including all six factors	S 300 (A) (1) (a) (i) & (ii)
	7. Performance discussion should justify company performance by illustrating the total shareholder return in the current financial year and previous four financial years. The TSR can be used as a measure that illustrate the dividend paid and the changes in share prices for each five financial years. (performance graph)	0 = No explanation 1 = Broad summary only 2 = Some details by comparing company TSR to TSR of other indices 3 = Greater or good level by providing justification for the selection of comparative indices.	S 300 (A) (1AA) and S 300 (A) (1AB) (a) (b)
	8. A detailed summary of any performance conditions upon which any remuneration element (short term and long term) is dependent.	0 = No explanation 1 = Broad statement only 2 = Some details highlighting short and long term incentives 3 = Greater or good level of detail highlighting plan differences applicable to individual directors with respect to both short and long term	S 300 (A) (1) (ba) (i)
	9. An explanation as to why any such performance conditions were selected for any remuneration element (short term and long term).	0 = No explanation 1 = Broad statement which highlights TSR details only 2 = Greater or good level of detail that explains rationale by comparing more than one performance conditions for both short	S 300 (A) (1) (ba) (ii)

		and long term incentives and goes beyond the description of TSR	
	10. A summary of the methods used in assessing whether the performance condition is satisfied and an explanation why those methods were selected.	0 = No explanation 1 = Broad summary of methods 2 = Some details highlighting the TSR or EPS calculations. 3 = Good level of detail highlighting the TSR or EPS calculations and justifying the choice of selected methods	S 300 (A) (1) (ba) (iii)
	11. If the performance condition involves a comparison with external factors then these factors should be mentioned. If these factors are related to another company(ies) or an index, in which the securities of the company or companies are included, then the identity of the company(ies) or index should also be disclosed.	0 = No explanation 1 = Broad statement only including detail of historical and present awards. 2 = Some details highlighting past, present and future awards 3 = Greater or good level of detail not only including past, present and future awards but discussing any change for previous rewards or expected change for future awards	S 300 (A) (1) (ba) (iv)
	12. If there is securities element of the remuneration of a director which is not dependent on a performance condition then the explanation should be provided for this element.	0 = No explanation 1 = Broad statement only 2 = Some details 3 = Greater or good level of detail	S 300 (A) (1) (d)
Disclosure about shareholder participation	13. Discussion about voting details of the director and executive remuneration report during the annual general meeting in meeting minutes.	0 = No discussion 1 = Broad voting details 2 = Detailed discussion about the shareholders' voting	S 250 (S) and S 250 (SA)

Appendix III: Alphabetical list of sample firms for Chapter Five

Number	Company Name	Company Code
1	Adelaide Brighton Ltd	ABC
2	Alesco Corp	ALS
3	Alliance Resources Limited	AGS
4	Alumina Ltd	AWC
5	Amcor Ltd	AMC
6	Ansell Ltd	ANN
7	ANZ Banking Group	ANZ
8	APN News & Media Ltd	APN
9	Aristocrat Leisure Ltd	ALL
10	Ausdrill Ltd	ASL
11	AXA Asia Pacific Holdings Ltd	AXA
12	Bank of Queensland Ltd	BOQ
13	Beach Petroleum Ltd	BPT
14	Bendigo and Adelaide Bank Limited	BEN
15	Bendigo Mining Limited	BDG
16	BHP Billiton Ltd	BHP
17	Biota Hldgs Ltd	BTA
18	Caltex Australia Ltd	CTX
19	Carbon Energy Limited	CNX
20	Carnarvon Petroleum Limited	CVN
21	Centennial Coal Co Ltd	CEY
22	Citadel Resource Group Limited	CGG
23	Citigold Corp Ltd	CTO
24	Coca-Cola Amatil Ltd	CCL
25	Cochlear Ltd	COH
26	Coffey International Ltd	COF
27	Commonwealth Bank Australia	CBA
28	Computershare Ltd	CPU
29	Consolidated Media Holdings	CMJ
30	Corporate Express Australia	CXP
31	Crane Group Ltd	CRG
32	CSL Ltd	CSL
33	CSR Ltd	CSR
34	Cudeco Limited	CDU
35	David Jones Ltd	DJS
36	Deep Yellow Limited	DYL
37	Dominion Mining Ltd	DOM
38	Downer EDI Ltd	DOW
39	Elders Ltd	ELD
40	Energy Developments Ltd	ENE
41	Energy Resources of Australia	ERA

42	Energy World Corporation Ltd	EWC
43	Fairfax Media Ltd	FXJ
44	Felix Resources	FLX
45	FKP Property Group	FKP
46	Fleetwood Corp Ltd	FWD
47	Flight Centre Ltd	FLT
48	Fortescue Metals Group	FMG
49	Foster's Group Ltd	FGL
50	Giralia Resources NL	GIR
51	GPT Group	GPT
52	GRD Limited	GRD
53	GUD Hldgs Ltd	GUD
54	Gunns Ltd	GNS
55	GWA Intl Ltd	GWT
56	Harvey Norman Hldgs Ltd	HVN
57	Healthscope Ltd	HSP
58	Hills Industries Ltd	HIL
59	Iluka Resources Ltd	ILU
60	Imdex Limited	IMD
61	Kingsgate Consolidated Ltd	KCN
62	Leighton Hldgs Ltd	LEI
63	Lend Lease Corporation Ltd	LLC
64	Lend Lease Primelife Ltd	LLP
65	Lihir Gold Ltd	LGL
66	Lynas Corporation Limited	LYC
67	Macmahon Holdings Ltd	MAH
68	Marion Energy Ltd	MAE
69	Minara Resources Ltd	MRE
70	Molopo Australia Limited	MPO
71	Monadelphous Group Ltd	MND
72	Mount Gibson Iron	MGX
73	National Australia Bank Ltd	NAB
74	Newcrest Mining Ltd	NCM
75	Nufarm Limited	NUF
76	Oil Search Ltd	OSH
77	Orica Ltd	ORI
78	Origin Energy Ltd	ORG
79	OZ Minerals Limited	OZL
80	Paladin Energy Ltd	PDN
81	Pan Pacific Petroleum NL	PPP
82	PanAust Ltd	PNA
83	Perpetual Limited	PPT
84	PMP Ltd	PMP
85	Qantas Airways Ltd	QAN
86	QBE Insurance Group Ltd	QBE

87	Resolute Mining Ltd	RSG
88	Ridley Corporation Ltd	RIC
89	Rio Tinto Ltd	RIO
90	Santos Ltd	STO
91	Seven Network Ltd	SEV
92	Skilled Group Limited	SKE
93	SMS Management & Technology Ltd	SMX
94	Sonic Healthcare Ltd	SHL
95	Spotless Group Ltd	SPT
96	St Barbara Limited	SBM
97	Stockland	SGP
98	Straits Resources Ltd	SRL
99	STW Communications Group Ltd	SGN
100	Suncorp-Metway Ltd	SUN
101	Sundance Resources Limited	SDL
102	Sunland Group Ltd	SDG
103	Tabcorp Hldgs Ltd	TAH
104	TAP OIL Limited	TAP
105	Toll Hldgs Ltd	TOL
106	Transurban Group NPV	TCL
107	United Group Limited	UGL
108	Wattyl Ltd	WYL
109	Wesfarmers Ltd	WES
110	West Australian Newspapers Ltd	WAN
111	Westpac Banking Corp	WBC
112	Woodside Petroleum Ltd	WPL
113	Woolworths Ltd	WOW

Appendix IV: Correspondence details for missing reports of sample firms

From: Yong Tang [yong.tang@gindalbie.com.au]
Sent: Friday, 7 August 2009 4:50 PM
To: Zahid Riaz
Subject: FW: Online inquiry from gindalbie web site

Hi Zahid

Thank you for your recent online enquiry.

Unfortunately, we can not locate a softcopy of our 96/97 annual report. All hardcopies of reports from Gindalbie Gold are currently in our offsite storage, and it will take a while to retrieve it.

The annual report database Connect4 that University NSW subscribes to provides access to annual reports back to 1992.You may like to try this database to locate the information you require.

Kind Regards,
Yong

Yong TANG

Marketing Advisor | Gindalbie Metals Ltd Level 9, London House, 216 St George's Terrace, Perth WA 6000
T: + 618 9480 8708 | F: + 618 9480 8799 | E: yong.tang@gindalbie.com.au | W: www.gindalbie.com.au

P Please consider the environment before printing this e-mail *This email and any accompanying attachments may contain information that is confidential to Gindalbie Metals and is subject to legal privilege. If you are not the intended recipient, do not use, disseminate, distribute or copy this message or attachments. If you have received this e-mail in error, please contact the sender and delete the material from any computer. Gindalbie Metals has taken reasonable steps to ensure the accuracy and integrity of all its communications, including electronic communications, but accepts no liability for materials transmitted.

-----Original Message-----
From: OnlineInquiry@gindalbie.com.au [mailto:OnlineInquiry@gindalbie.com.au]
Sent: Wednesday, 5 August 2009 2:56 PM
To: gindalbie
Subject: Online inquiry from gindalbie web site

Online Inquiry Details

Name: Zahid Riaz
Email: zahid@unsw.edu.au
Comments: Hi,

Thank you for your attention to my mail. I'm a research student and needs the annual report of your company for 1996-1997 financial year. May you kindly send me the soft copy at my following email address zahid@unsw.edu.au
Thanking you for your cooperation and guidance.

Cheers,

Zahid

Hi Louise,

Thank you for your response and cooperation.

Cheers,

Zahid

From: Louise Mendi [mailto:LouiseMendi@brockman.com.au]
Sent: Tuesday, 16 November 2010 1:42 PM
To: Zahid Riaz
Subject: RE: Annual Report

Hi Zahid,

My apologies alot of my mail goes to spam and is immediately deleted.

I will sent you the above report.

Regards

Louise

Louise Mendi
Receptionist

Brockman Resources Limited
Level 1, 117 Stirling Hwy, Nedlands WA 6009

Phone: +61 8 9389 3000 Direct: 08 9389 3000
Fax: +61 8 9389 3033
Web: www.brockman.com.au

From: Zahid Riaz [mailto:zahid@unsw.edu.au]
Sent: Monday, 15 November 2010 5:06 PM
To: Louise Mendi
Subject: FW: Annual Report
Importance: High

Hi Louise,

Kindly see below for the forwarded message. You've deleted the message without reading out. I requested for the copy of annual report of 2001-02 for research purposes.

Z.

With kind regards,
Zahid Riaz
Lecturer (casual) & Ph.D.(Student)
School of Organisation & Management
The Australian School of Business
The University of New South Wales
Sydney 2052
Phone: (+ 61 4) 3240 7617
Fax: (+ 61 2) 9662 8531
E-mail: zahid@unsw.edu.au

From: Louise Mendi [mailto:LouiseMendi@brockman.com.au]
Sent: Monday, 15 November 2010 5:48 PM
To: Zahid Riaz
Subject: Not read: Annual Report
Importance: High

Your message was deleted without being read on Monday, November 15, 2010 5:48:20 PM (GMT+10:00) Canberra, Melbourne, Sydney.

From: Jenny Mei Ying Yap (JIRA) [helpdesk.au@morningstar.com]
Sent: Wednesday, 26 August 2009 2:24 PM
To: Zahid Riaz
Subject: [JIRA] Updated: (CSR-38268) ASPEN Annual Report 1997

Issue CSR-38268 has been commented by Jenny Mei Ying Yap. Please use this reference (CSR-38268) in any future correspondence.

Summary: ASPEN Annual Report 1997

Hi Zahid,

Unfortunately, the ASX can't assist with your request as they don't have the annual report in their records as well. They suggested that you contact the Company directly on 08 9220 8400 and also trying the State Library.

Regards,

--
Morningstar Client Services
helpdesk.au@morningstar.com

Appendix V: Disclosure indices of sample firms

Lynas Corporation Limited-2006

Disclosure index category	Disclosure index item description	Disclosure level ranking details	Australian Section(s)
General disclosure of director and executive remuneration	1. Total amount of salary, fees and commissions; cash-profit sharing and bonuses; and non-monetary benefits of executive and non-executive directors. (Primary benefits)	0 = No details 1 = Aggregated **2= Disaggregated**	S 300 (A) (1) (c) including AASB 1046 and AASB 124.
	2. Total amount of any remuneration for pension and superannuation; prescribed benefits; and other termination benefits of executive and non-executive directors. (Post-employment benefits)	0 = No details 1 = Aggregated **2 = Disaggregated** 3 = Disaggregated and details regarding retirement plans and/or allowances including actual conditions or obligations	
	3. Long term incentive schemes with total value of shares and units; value of options and rights; and value of other equity remuneration of executive and non-executive directors. (Equity remuneration)	0 = No details 1 = Aggregated **2 = Disaggregated** 3 = Detailed discussion about each scheme and performance conditions attached to it	
	4. Details of options for executive and non-executive directors with respect to the number of options and rights granted and vested; and particular terms and conditions of each share options including value, exercise price, amount paid/payable by recipient, expiry date and the date from which the option may be exercised; and summary of service and performance criteria upon which the award or exercise is conditional. (Options valuation details)	0 = No details 1 = General discussion about option grants. 2 = Valuation method and option value disclosed **3 = Valuation method and option value disclosed along with valuation model input (exercise price, expiry date, exercise date, volatility)**	
	5. All other benefits of executive and non-executive directors including prescribed and other benefits. (Other remuneration benefits)	0 = No details 1 = Aggregated **2 = Disaggregated** 3 = Disaggregated with detailed discussion	

Pay-for-performance model disclosure	6. Remuneration policy for the following financial year and subsequent financial years highlighting the following factors: i) Key factors influencing remuneration policy. ii) Labour market conditions. iii) Benchmarking of remuneration package against other companies and details of those companies. iv) Explanation of salary increases. v) Wider context of all employee reward. vi) Explanation of any proposed changes in the remuneration plan and policy in the following financial year.	0 = No explanation 1 = Broad summary including one or two factors only **2 = Some details which include three or four factors** 3 = Greater or good level of detail including all six factors	S 300 (A) (1) (a) (i) & (ii)
	7. Performance discussion should justify company performance by illustrating the total shareholder return in the current financial year and previous four financial years. The TSR can be used as a measure that illustrate the dividend paid and the changes in share prices for each five financial years. (performance graph)	**0 = No explanation** 1 = Broad summary only 2 = Some details by comparing company TSR to TSR of other indices 3 = Greater or good level by providing justification for the selection of comparative indices	S 300 (A) (1AA) and S 300 (A) (1AB) (a) (b)
	8. A detailed summary of any performance conditions upon which any remuneration element (short term and long term) is dependent.	**0 = No explanation** 1 = Broad statement only 2 = Some details highlighting short and long term incentives 3 = Greater or good level of detail highlighting plan differences applicable to individual directors with respect to both short and long term	S 300 (A) (1) (ba) (i)

	9. An explanation as to why any such performance conditions were selected for any remuneration element (short term and long term).	**0 = No explanation** 1 = Broad statement which highlights TSR details only 2 = Greater or good level of detail that explains rationale by comparing more than one performance conditions for both short and long term incentives and goes beyond the description of TSR	S 300 (A) (1) (ba) (ii)
	10. A summary of the methods used in assessing whether the performance condition is satisfied and an explanation why those methods were selected.	**0 = No explanation** 1 = Broad summary of methods 2 = Some details highlighting the TSR or EPS calculations 3 = Good level of detail highlighting the TSR or EPS calculations and justifying the choice of selected methods	S 300 (A) (1) (ba) (iii)
	11. If the performance condition involves a comparison with external factors then these factors should be mentioned. If these factors are related to another company(ies) or an index, in which the securities of the company or companies are included, then the identity of the company(ies) or index should also be disclosed.	**0 = No explanation** 1 = Broad statement only including detail of historical and present awards. 2 = Some details highlighting past, present and future awards 3 = Greater or good level of detail not only including past, present and future awards but discussing any change for previous rewards or expected change for future awards	S 300 (A) (1) (ba) (iv)
	12. If there is securities element of the remuneration of a director which is not dependent on a performance condition then the explanation should be provided for this element.	**0 = No explanation** 1 = Broad statement only 2 = Some details 3 = Greater or good level of detail	S 300 (A) (1) (d)

Disclosure about shareholder participation	13. Discussion about voting details of the director and executive remuneration report during the annual general meeting in meeting minutes.	0 = No discussion **1 = Broad voting details** 2 = Detailed discussion about the shareholders' voting	S 250 (S) and S 250 (SA)
Total disclosure index score = 14			

Consolidated Media Holdings-2006

Disclosure index category	Disclosure index item description	Disclosure level ranking details	Australian Section(s)
General disclosure of director and executive remuneration	1. Total amount of salary, fees and commissions; cash-profit sharing and bonuses; and non-monetary benefits of executive and non-executive directors. (Primary benefits)	0 = No details 1 = Aggregated **2= Disaggregated**	S 300 (A) (1) (c) including AASB 1046 and AASB 124.
	2. Total amount of any remuneration for pension and superannuation; prescribed benefits; and other termination benefits of executive and non-executive directors. (Post-employment benefits)	0 = No details 1 = Aggregated 2 = Disaggregated **3 = Disaggregated and details regarding retirement plans and/or allowances including actual conditions or obligations**	
	3. Long term incentive schemes with total value of shares and units; value of options and rights; and value of other equity remuneration of executive and non-executive directors. (Equity remuneration)	0 = No details 1 = Aggregated 2 = Disaggregated **3 = Detailed discussion about each scheme and performance conditions attached to it**	
	4. Details of options for executive and non-executive directors with respect to the number of options and rights granted and vested; and particular terms and conditions of each share options including value, exercise price, amount paid/payable by recipient, expiry date and the date from which the option may be exercised; and summary of service and performance criteria upon which the award or exercise is conditional. (Options valuation details)	0 = No details 1 = General discussion about option grants. **2 = Valuation method and option value disclosed** 3 = Valuation method and option value disclosed along with valuation model input (exercise price, expiry date, exercise date, volatility)	

	5. All other benefits of executive and non-executive directors including prescribed and other benefits. (Other remuneration benefits)	0 = No details 1 = Aggregated 2 = Disaggregated **3 = Disaggregated with detailed discussion**	
Pay-for-performance model disclosure	6. Remuneration policy for the following financial year and subsequent financial years highlighting the following factors: i) Key factors influencing remuneration policy. ii) Labour market conditions. iii) Benchmarking of remuneration package against other companies and details of those companies. iv) Explanation of salary increases. v) Wider context of all employee reward. vi) Explanation of any proposed changes in the remuneration plan and policy in the following financial year.	0 = No explanation 1 = Broad summary including one or two factors only **2 = Some details which include three or four factors** 3 = Greater or good level of detail including all six factors	S 300 (A) (1) (a) (i) & (ii)
	7. Performance discussion should justify company performance by illustrating the total shareholder return in the current financial year and previous four financial years. The TSR can be used as a measure that illustrate the dividend paid and the changes in share prices for each five financial years. (performance graph)	0 = No explanation 1 = Broad summary only **2 = Some details by comparing company TSR to TSR of other indices** 3 = Greater or good level by providing justification for the selection of comparative indices	S 300 (A) (1AA) and S 300 (A) (1AB) (a) (b)
	8. A detailed summary of any performance conditions upon which any remuneration element (short term and long term) is dependent	0 = No explanation 1 = Broad statement only **2 = Some details highlighting short and long term incentives** 3 = Greater or good level of detail highlighting plan differences applicable to individual directors with respect to both short and long term	S 300 (A) (1) (ba) (i)
	9. An explanation as to why any such performance conditions were	0 = No explanation	S 300 (A) (1)

	selected for any remuneration element (short term and long term).	**1 = Broad statement which highlights TSR details only** 2 = Greater or good level of detail that explains rationale by comparing more than one performance conditions for both short and long term incentives and goes beyond the description of TSR	(ba) (ii)
	10. A summary of the methods used in assessing whether the performance condition is satisfied and an explanation why those methods were selected.	0 = No explanation **1 = Broad summary of methods** 2 = Some details highlighting the TSR or EPS calculations 3 = Good level of detail highlighting the TSR or EPS calculations and justifying the choice of selected methods	S 300 (A) (1) (ba) (iii)
	11. If the performance condition involves a comparison with external factors then these factors should be mentioned. If these factors are related to another company(ies) or an index, in which the securities of the company or companies are included, then the identity of the company(ies) or index should also be disclosed.	0 = No explanation 1 = Broad statement only including detail of historical and present awards. **2 = Some details highlighting past, present and future awards** 3 = Greater or good level of detail not only including past, present and future awards but discussing any change for previous rewards or expected change for future awards	S 300 (A) (1) (ba) (iv)
	12. If there is securities element of the remuneration of a director which is not dependent on a performance condition then the explanation should be provided for this element.	**0 = No explanation** 1 = Broad statement only 2 = Some details 3 = Greater or good level of detail	S 300 (A) (1) (d)
Disclosure about shareholder participation	13. Discussion about voting details of the director and executive remuneration report during the annual general meeting in meeting minutes.	0 = No discussion **1 = Broad voting details** 2 = Detailed discussion about the shareholders' voting	S 250 (S) and S 250 (SA)
Total disclosure index score = 24			

Foster's Group Limited-2006

Disclosure index category	Disclosure index item description	Disclosure level ranking details	Australian Section(s)
General disclosure of director and executive remuneration	1. Total amount of salary, fees and commissions; cash-profit sharing and bonuses; and non-monetary benefits of executive and non-executive directors. (Primary benefits)	0 = No details 1 = Aggregated **2= Disaggregated**	S 300 (A) (1) (c) including AASB 1046 and AASB 124.
	2. Total amount of any remuneration for pension and superannuation; prescribed benefits; and other termination benefits of executive and non-executive directors. (Post-employment benefits)	0 = No details 1 = Aggregated 2 = Disaggregated **3 = Disaggregated and details regarding retirement plans and/or allowances including actual conditions or obligations**	
	3. Long term incentive schemes with total value of shares and units; value of options and rights; and value of other equity remuneration of executive and non-executive directors. (Equity remuneration)	0 = No details 1 = Aggregated 2 = Disaggregated **3 = Detailed discussion about each scheme and performance conditions attached to it**	
	4. Details of options for executive and non-executive directors with respect to the number of options and rights granted and vested; and particular terms and conditions of each share options including value, exercise price, amount paid/payable by recipient, expiry date and the date from which the option may be exercised; and summary of service and performance criteria upon which the award or exercise is conditional. (Options valuation details)	0 = No details 1 = General discussion about option grants. 2 = Valuation method and option value disclosed **3 = Valuation method and option value disclosed along with valuation model input (exercise price, expiry date, exercise date, volatility)**	

	5. All other benefits of executive and non-executive directors including prescribed and other benefits. (Other remuneration benefits)	0 = No details 1 = Aggregated 2 = Disaggregated **3 = Disaggregated with detailed discussion**	
Pay-for-performance model disclosure	6. Remuneration policy for the following financial year and subsequent financial years highlighting the following factors: i) Key factors influencing remuneration policy. ii) Labour market conditions. iii) Benchmarking of remuneration package against other companies and details of those companies. iv) Explanation of salary increases. v) Wider context of all employee reward. vi) Explanation of any proposed changes in the remuneration plan and policy in the following financial year.	0 = No explanation 1 = Broad summary including one or two factors only 2 = Some details which include three or four factors **3 = Greater or good level of detail including all six factors**	S 300 (A) (1) (a) (i) & (ii)
	7. Performance discussion should justify company performance by illustrating the total shareholder return in the current financial year and previous four financial years. The TSR can be used as a measure that illustrate the dividend paid and the changes in share prices for each five financial years. (performance graph)	0 = No explanation 1 = Broad summary only 2 = Some details by comparing company TSR to TSR of other indices **3 = Greater or good level by providing justification for the selection of comparative indices**	S 300 (A) (1AA) and S 300 (A) (1AB) (a) (b)
	8. A detailed summary of any performance conditions upon which any remuneration element (short term and long term) is dependent.	0 = No explanation 1 = Broad statement only 2 = Some details highlighting short and long term incentives **3 = Greater or good level of detail highlighting plan differences applicable to individual directors with respect to both short and long term**	S 300 (A) (1) (ba) (i)

	9. An explanation as to why any such performance conditions were selected for any remuneration element (short term and long term).	0 = No explanation 1 = Broad statement which highlights TSR details only **2 = Greater or good level of detail that explains rationale by comparing more than one performance conditions for both short and long term incentives and goes beyond the description of TSR**	S 300 (A) (1) (ba) (ii)
	10. A summary of the methods used in assessing whether the performance condition is satisfied and an explanation why those methods were selected.	0 = No explanation 1 = Broad summary of methods 2 = Some details highlighting the TSR or EPS calculations. **3 = Good level of detail highlighting the TSR or EPS calculations and justifying the choice of selected methods**	S 300 (A) (1) (ba) (iii)
	11. If the performance condition involves a comparison with external factors then these factors should be mentioned. If these factors are related to another company(ies) or an index, in which the securities of the company or companies are included, then the identity of the company(ies) or index should also be disclosed.	0 = No explanation 1 = Broad statement only including detail of historical and present awards. 2 = Some details highlighting past, present and future awards **3 = Greater or good level of detail not only including past, present and future awards but discussing any change for previous rewards or expected change for future awards**	S 300 (A) (1) (ba) (iv)
	12. If there is securities element of the remuneration of a director which is not dependent on a performance condition then the explanation should be provided for this element.	**0 = No explanation** 1 = Broad statement only 2 = Some details 3 = Greater or good level of detail	S 300 (A) (1) (d)

Disclosure about shareholder participation	13. Discussion about voting details of the director and executive remuneration report during the annual general meeting in meeting minutes.	0 = No discussion **1 = Broad voting details** 2 = Detailed discussion about the shareholders' voting	S 250 (S) and S 250 (SA)
Total disclosure index score = 32			

Appendix VI: Alphabetical list of sample firms for Chapter Six

Number	Name of Foreign MNC-subsidiaries	Company Code
1	Aquila Resources Limited	AQA
2	Austar United Communications Limited	AUN
3	AVJENNINGS LIMITED	AVJ
4	AXA Asia Pacific Holdings Limited	AXA
5	Caltex Australia Limited	CTX
6	Campbell Brothers Limited	CPB
7	CIC Australia Limited	CNB
8	Clough Limited	CLO
9	Coal & Allied Industries Limited	CNA
10	Coca-Cola Amatil Limited	CCL;CCLAY
11	Corporate Express Australia Limited	CXP
12	Country Road Limited	CTY
13	Crescent Gold Ltd	CRE
14	Gloucester Coal Limited	GCL
15	Hamilton James & Bruce Group Limited	HJB
16	Hutchison Telecommunications (Aus) Ltd	HTA
17	Iluka Resources Ltd	ILU
18	James Hardie Industries Nv	JHX
19	Leighton Holdings Limited	LEI
20	Minara Resources Limited	MRE
21	Perilya Limited	PEM
22	Public Holdings (Australia) Limited	PHA
23	Raffles Capital Limited	RAF
24	ResMed Inc	RMD
25	Singapore Telecommunications Ltd	SGT
26	Telecom Corporation of New Zealand Ltd	TEL
27	Thakral Holdings Group	THG
28	Wattyl Limited	WYL
29	WHK Group Limited	WHG

Number	Name of Domestic firms	Company Code
1	Alliance Resources Limited	AGS
2	Aspen Group	APZ
3	ASX Limited	ASX
4	Australian Agricultural Co	AAC
5	Avoca Resources Ltd	AVO
6	Bendigo and Adelaide Bank Limited	BEN
7	Bendigo Mining Limited	BDG
8	Carbon Energy Limited	CNX
9	Centennial Coal Co Ltd	CEY

10	Consolidated Media Holdings	CMJ
11	Cudeco Limited	CDU
12	David Jones Ltd	DJS
13	Dominion Mining Ltd	DOM
14	Eastern Star Gas Limited	ESG
15	Envestra Ltd	ENV
16	Flinders Mines Limited	FMS
17	Geodynamics Ltd	GDY
18	Gindalbie Metals Ltd	GBG
19	IMF (Australia) Ltd	IMF
20	Independence Group NL	IGO
21	Integra Mining Limited	IGR
22	Jabiru Metals Ltd	JML
23	Kagara Zinc Ltd	KZL
24	Macarthur Coal Ltd	MCC
25	MEO Australia Limited	MEO
26	Mount Gibson Iron	MGX
27	Nexus Energy Limited	NXS
28	Panoramic Resources Limited	PAN
29	St Barbara Limited	SBM
30	West Australian Newspapers Ltd	WAN
31	Western Areas NL	WSA

Annexure

Directors' Report

30 JUNE 2006

SHARE OPTIONS

Unissued shares

As at year end the Company had on issue the following options to acquire ordinary fully paid shares:

Description	Number	Expiry date	Exercise price
Incentive Plan options	7,700,000	30 November 2006	$0.25
Unlisted options	2,933,326	31 December 2006	$0.20
Unlisted options	1,000,000	30 November 2006	$0.20
Incentive Plan options	300,000	26 November 2007	$0.30
Unlisted options	7,500,000	30 November 2007	$0.30
Unlisted options	7,733,314	31 December 2007	$0.20
Incentive Plan options	1,270,000	30 June 2008	$0.30
Unlisted options	9,800,000	16 January 2009	$0.17

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

Shares issued as a result of the exercise of options

During the financial year, the following options were exercised:

- 1,733,329 unlisted options at an exercise price of $0.20 each;
- 30,000 employees options at an exercise price of $0.25 each; and
- 2,000,000 unlisted options at an exercise price of $0.20 each.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company has paid premiums in respect of a contract insuring all the directors of Lynas Corporation Ltd against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

(b) a contravention of sections 182 or 183 of the Corporations Act 2001,

as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was $123,457. This amount is not included as part of the directors remuneration in note 29.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is bound by the requirements of the relevant environmental protection authorities for the management and rehabilitation of tenements owned or previously owned by the group. Tenements are being maintained and rehabilitated following these guidelines. There have been no known breaches of any of these conditions.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A. Remuneration policy

B. Details of remuneration

C. Service agreements

D. Share-based compensation

Directors' Report

30 JUNE 2006

A. Remuneration Policy (Audited)

Philosophy

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance. The expected outcomes of the remuneration structure are:

a. Retention and Motivation of key executives;
b. Attraction of quality management of the company; and
c. Performance incentives which allow executives to share the rewards of the success of Lynas Corporation Limited.

For details on the amount of remuneration and all monetary and non-monetary components for each of the non-director executives during the year and for all directors, refer to Table 1 of this report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Lynas Corporation Limited and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

Remuneration committee

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team. The Board has established a remuneration committee, comprising the non-executive directors. Members of the remuneration committee throughout the year were:

D Davidson (c)

J Klein

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice where required from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. No additional fee is paid for board committees on which a director sits.

Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits. The non-executive directors of the company can participate in the Executive and Employee Option Plan.

Senior manager and executive director remuneration

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

i. reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
ii. align the interests of executives with those of shareholders;
iii. link reward with the strategic goals and performance of the company; and
iv. ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee may engage external consultants as required to provide independent advice detailing market levels of remuneration for comparable executive roles.

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable remuneration
  - Short Term Incentive ("STI"); and
  - Long Term Incentive ("LTI")

The proportion of fixed and variable remuneration is decided by the Remuneration Committee after consideration of the overall performance of the company and the individual. The remuneration is not necessarily linked to specific performance targets. The remuneration of the key management personnel for the year ending 30 June 2006 is detailed below.

B. Details of remuneration (Audited)

The key management personnel of Lynas Corporation Limited and of the Group are the Board of Directors and the following other key personnel of the company and Group.

M Vaisey – General Manager/Operations & Technical Services

M James – General Manager/Corporate and Business Development

H Wang – President/ China Operations (ceased to be an employee on 30 September 2005)

I Polovineo – Company Secretary

Amounts of remuneration paid

Table 1

2006	Short-term employee benefits				Post- employee benefits		Share-based payment	
Name	Cash salary and fees	Cash bonus	Other	Non monetary benefits	Super-annuation	Retirement benefits	Options	Total
Executive director								
N Curtis	333,829	-	-	655	5,504	-	14,667	354,655
Non-executive directors				-				
J Klein	45,872	-	-	-	4,128	-	-	50,000
D Davidson	25,795	-	-	-	2,322	-	1,500	29,617
P Newton	22,936	-	-	-	2,064	-	-	25,000
M Okeby	25,000	-	-	-	-	-	-	25,000
Sub total non-executive directors	**119,603**	**-**	**-**	**-**	**8,514**	**-**	**1,500**	**129,617**
Other Key personnel								
M James	239,352	-	730	-	21,542	-	11,167	272,791
M Vaisey	223,412	-	6,028	-	20,107	-	3,667	253,214
H Wang	28,211	-	*18,750	-	4,645	-	11,000	62,606
I Polovineo	-	-	-	-	-	-	**1,833	1,833
Total	**944,407**	**-**	**25,508**	**655**	**60,312**	**-**	**43,834**	**1,074,716**

2005	Short-term employee benefits				Post- employee benefits		Share-Based payment	
Name	Cash salary and fees	Cash bonus	Other	Non monetary benefits	Super-annuation	Retirement benefits	Options	Total
Executive director								
N Curtis	366,972	-	-	-	33,028	-	14,667	414,667
Non-executive directors				-				
J Klein	38,905	-	-	-	2,690	-	-	41,595
D Davidson	50,000	-	-	-	-	-	1,500	51,500
B Davidson	22,102	-	-	-	8,037	-	-	30,139
P Newton	27,563	-	-	-	2,480	-	-	30,043
M Okeby	30,043	-	-	-	-	-	-	30,043
Sub total non –executive directors	**168,613**	**-**	**-**	**-**	**13,207**	**-**	**1,500**	**183,320**
Other Key personnel								
M James	221,560	-	-	-	19,940	-	11,667	253,167
M Vaisey	221,560	-	-	-	19,940	-	3,667	245,167
H Wang	120,414	-	*43,750	-	10,836	-	11,000	186,000
I Polovineo	-	-	-	-	-	-	**1,833	1,833
Total	**1,099,119**	**-**	**43,750**	**-**	**96,951**	**-**	**44,334**	**1,284,154**

* *living away from home allowance*

** *services provided by Sino Gold Limited – refer note 29*

C. Service agreements

It is the Remuneration Committee's policy that employment agreements shall only be entered into with the Chief Executive Officer and with no other executives.

The company entered into an agreement ("Employment Agreement") dated 2 August 2001 with Mr N Curtis for the provision of Mr Curtis' services as Chief Executive Officer on reasonable commercial terms and conditions. The current employment agreement with Mr Curtis expires on 31 July 2008.

The Company entered into an agreement ("Employment Agreement") dated 2 August 2001 with Mr O Wang for the provision of Mr Wang's services as a Vice President on reasonable commercial terms and conditions.

D. Share-based compensation

Options granted as part of remuneration for the year needed 30 June 2006

There were no options granted during the period and no options vested during the period.

Fair value of options:

The fair value of each option is estimated on the date of grant using a Black & Scholes valuation model with the following weighted average assumptions for grants made on 30 November 2001, 30 November 2002 and 30 June 2003:

	30 November 2001	30 November 2002	30 June 2003
Dividend yield	Nil	Nil	Nil
Expected volatility	77%	30%	60%
Historical volatility	77%	30%	60%
Risk-free interest rate	4.87%	5.4%	4.7%
Life of option	5 years	5 years	5 years

No dividends have been paid in the past and hence it is not appropriate to estimate future possible dividends in the calculations. The life of the options is based on a 5 year expiry from date of issue and therefore not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The resulting weighted average fair values per option for those options vesting after 1 July 2005 are:

Number of options	Grant date	Vesting date	Weighted average fair value
7,730,000	30 November 2001	30 November 2006	$0.022
300,000	30 November 2002	30 November 2007	$0.015
1,270,000	30 June 2003	30 June 2008	$0.067

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

		Meetings of Committees		
	Directors' Meetings	Audit	Nomination and Remuneration	Safety, Health, Environment & Community
Number of meetings held:	5	2	1	1
Number of meetings attended:				
N Curtis	5	2	-	1
D Davidson	5	-	1	1
J Klein	5	2	1	-
P Newton (resigned 8 December 2005)	1	-	-	-
M Okeby (resigned 8 December 2005)	1	1	-	-

Committee membership

As at the date of this report, the company had an Audit Committee, a Nomination and Remuneration Committee and a Safety, Health, Environment and Community ("SHEC") Committee of the board of directors.

Members acting on the committees of the board during the year were:

Audit	Nomination and Remuneration	Safety, Health, Environment & Community
J Klein (c)	D. Davidson (c)	D. Davidson (c)
N Curtis	J Klein	N. Curtis
M Okeby (resigned 8 December 2005)		

(c) Designates the chairman of the committee

TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, Lynas Corporation Limited and its 100% owned subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Lynas Corporation Limited seek to ensure appropriate and effective corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

Corporate Office
Level 7
56 Pitt Street
Sydney NSW 2000
AUSTRALIA

Telephone: +61 2 8259 7100
Facsimile: +61 2 8259 7199
Website: www.lynascorp.com
ACN: 009 066 648

16 October 2006

Dear Shareholder

Your Directors are pleased to enclose a copy of the 2006 Annual Report together with the Notice of Meeting and Proxy Form for the Annual General Meeting to be held on Thursday 23 November 2006.

Please note that proxy forms need to be lodged no later than 10.30am AEST on 21 November 2006 by post or facsimile to the respective addresses stipulated on the proxy form.

As you can see from the report the year ending June 2006 has been an important and successful year for the company.

I hope you find the report informative.

Yours sincerely

Nicholas Curtis
Executive Chairman

Encl

ACN 009 066 648

NOTICE OF ANNUAL GENERAL MEETING

To be held on Wednesday 23 November 2006 at 10.30 am (AEST)
in the Premier's Room at the Hotel Inter-Continental,
Corner Bridge and Phillip Streets, Sydney, NSW

This is an important document. Please read it carefully.
If you are unable to attend the Annual General Meeting, please complete the Proxy Form enclosed at the back of this document and return it in accordance with the instructions.

LYNAS CORPORATION LIMITED
ACN 009 066 648
NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2006 Annual General Meeting of shareholders of Lynas Corporation Limited ("Company") will be held in the Premier's Room at the Hotel Inter-Continental, Corner Bridge and Phillip Streets, Sydney, NSW on 23 November 2006 at 10.30 am (AEST) for the purpose of transacting the following Business.

ORDINARY BUSINESS

2006 Financial Statements

To receive and consider the financial statements of the Company for the year ended 30 June 2006, consisting of the Annual Financial Report, the Directors' Report and Auditor's Report.

Resolution 1 – Remuneration Report

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> *"That the Remuneration Report of the Company for the year ended 30 June 2006 be adopted."*

Pursuant to section 250R(3) of the *Corporations Act* 2001, the vote on this resolution is advisory only and it does not bind the directors or the Company.

Resolution 2 – Confirmation of Appointment of David Davidson as a Director

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> "*That the appointment of David Oliver Davidson as a director of the Company since the previous Annual General Meeting pursuant to Article 13.5 of the Company's Constitution be confirmed.*"

Pursuant to Article 13.5 of the Company's Constitution, the existing directors of the Company may appoint a person as a director, subject to the Company confirming the appointment by resolution at the Company's next Annual General Meeting.

Entitlements to Vote

For the purposes of determining a person's entitlement to vote at the meeting, a person will be recognised as a Member and holder of shares if that person is registered as a holder of those shares at 7pm AEST on 21 November 2006.

By order of the Board

Ivo Polovineo
Company Secretary
Date: 16 October 2006

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide shareholders in Lynas Corporation Limited ACN 009 066 648 ("**Company**") with sufficient information to assess the merits of the Resolutions contained in the Notice of Annual General Meeting of the Company.

The Directors recommend that shareholders read this Explanatory Memorandum in full before making any decision in relation to the above Resolutions.

The following information should be noted in respect of the various matters contained in the Notice of Annual General Meeting:

RESOLUTION 1 – REMUNERATION REPORT

The Remuneration Report for the year ended 30 June 2006 is set out in the Directors' Report on pages 23 to 27 of the Annual Report.

The Remuneration Report:

- Explains the Board's policies relating to remuneration of directors, secretaries and executives of the Company;
- Discusses the relationship between such policies and the Company's performance;
- Provides details of any performance conditions attached to such remuneration; and
- Sets out remuneration details for each director and certain named executives.

The Board submits the Remuneration Report to shareholders for consideration and adoption by way of a non-binding resolution as required by the Corporations Act.

RESOLUTION 2 – CONFIRMATION OF APPOINTMENT OF DAVID DAVIDSON AS A DIRECTOR

In accordance with the commentary and guidance to Recommendation 2.4 of the ASX Corporate Governance Principles, the Company provides the following information concerning Mr Davidson:

Biographical details
Mr. Davidson has had a distinguished career with ICI and DuPont. An Australian, he has lived and worked in Europe and North America and held a number of senior executive roles with global responsibilities. He is a former director of ICI America Inc. Since returning to Australia, Mr. Davidson has been providing executive and corporate advice on organisation development and strategy. During the past three years Mr. Davidson has not held any other listed company directorships.

Details of relationships between the Candidate and the Company
Mr. Davidson is a non-executive Director of the Company

Details of relationships between the Candidate and Directors of the Company
Not applicable

Directorships held
Nil

The term of office already served by Mr Davidson
Mr. Davidson originally joined the Board on 28 March 2002. He resigned from the Board on 18 August 2005 and was re-appointed as a director on 8 December 2005.

LYNAS CORPORATION LIMITED
ACN 009 066 648
PROXY FORM

The Company Secretary
Lynas Corporation Limited
C/- The Share Registry
770 Canning Highway
APPLECROSS WA 6153

Facsimile: +61 8 9315 2233

I/We (name of shareholder) .....
of (address) .....
being a member/members of Lynas Corporation Limited HEREBY APPOINT
(name) .....
of (address) .....
or failing that person then the Chairperson of the meeting as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held on 23 November 2006 and at any adjournment of the meeting.

Should you so desire to direct the Proxy how to vote, you should place a cross in the appropriate box(es) below:

I/We direct my/our Proxy to vote in the following manner:

	For	Against	Abstain
Resolution 1 – Adoption of Remuneration Report	☐	☐	☐
Resolution 2 – Confirmation of appointment of Mr David Davidson	☐	☐	☐

If no directions are given my proxy may vote as the proxy thinks fit or may abstain.

In relation to undirected proxies, the Chairman intends to vote in favour of Resolutions 1 and 2.

If you wish to appoint the Chairman as your proxy and you do not wish to direct the Chairman how to vote, please place a mark in the box. ☐

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.

Shareholders are entitled to appoint up to 2 proxies (whether shareholders or not) to attend the Meeting and vote. If you wish to appoint 2 proxies, please obtain a second form by telephoning (02) 8259 7100. Both forms should be completed with the nominated number or percentage of your voting rights clearly printed on each form. If you do not specify a number or percentage of your voting rights, each proxy may exercise half of your voting rights. Please return both proxy forms together.

Dated .

If the shareholder is an individual:

Signature: _____

If the shareholder is a company:

Affix common seal (if required by Constitution)

_____	_____
Director/Sole Director and Secretary	Director/Secretary
_____	_____
Print name	Print name

INSTRUCTIONS FOR APPOINTMENT OF PROXY

1. A shareholder entitled to attend and vote is entitled to appoint no more than two proxies to attend and vote at this General Meeting as the shareholder's proxy. A proxy need not be a shareholder of the Company.

2. The proxy form must be signed personally by the shareholder or his attorney, duly authorised in writing. If a proxy is given by a corporation, the proxy must be executed in accordance with its constitution or its duly authorised attorney. In the case of joint shareholders, this proxy must be signed by each of the joint shareholders, personally or by a duly authorised attorney.

3. If a proxy is executed by an attorney of a shareholder, then the original of the relevant power of attorney or a certified copy of the relevant power of attorney, if it has not already been noted by the Company, must accompany the proxy form.

4. To be effective, forms to appoint proxies must be received by the Company no later than 48 hours before the time appointed for the holding of this Annual General Meeting **that is by 10.30 am AEST on 21 November 2006** by post or facsimile to the respective addresses stipulated in this proxy form.

5. If the proxy form specifies a way in which the proxy is to vote on any of the resolutions stated above, then the following applies:

   (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way; and
   (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands; and
   (c) if the proxy is Chairperson, the proxy must vote on a poll and must vote that way, and
   (d) if the proxy is not the Chairperson, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.

If a proxy is also a shareholder, the proxy can cast any votes the proxy holds as a shareholder in any way that the proxy sees fit.

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ACN: 009 066 648

4 August 2006

Company Announcements Office
Australian Stock Exchange Limited

Outcome of Extraordinary General Meeting
Held 4 August 2006

In accordance with Listing Rule 3.13.2 of the Australian Stock Exchange Limited and Section 251AA of the Corporations Act 2001 the following are details of the outcome of the resolutions put to the Extraordinary General Meeting of the Company held today:

Resolution	Outcome
1.1 Approval of issue of convertible notes	Passed on a show of hands
1.2 Approval of issue and allotment of securities	Passed on a show of hands
2.1 Approval of issue of securities	Passed on a show of hands
2.2 Approval of issue of securities to N Curtis	Passed on a show of hands
3.1 Ratification of prior issue of securities	Passed on a show of hands
4.1 Amendments to 1999 Option Incentive Plan	Passed on a show of hands
4.2 Authorisation of issue of Options	Passed on a show of hands
5.1 Issue of Options to Executive Director - N Curtis	Passed on a show of hands

In respect of each resolution passed on a show of hands the total number of proxy votes exercisable by all proxies validly appointed and the total number of proxy votes in respect of which the appointments specified that:

a) the proxy was to vote for the resolution; and
b) the proxy was to vote against the resolution; and
c) the proxy was to abstain on the resolution; and
d) the proxy was able to vote at the proxy's discretion

are set out in the table below:

	a) For		b) Against		c) Abstain		d) Discretion	
	Proxies	Shares	Proxies	Shares	Proxies	Shares	Proxies	Shares
1.1	57	83,512,035	4	40,700	3	1,788,931	22	3,127,700
1.2	56	85,085,486	6	242,180	2	14,000	22	3,127,700
2.1	55	84,845,486	5	56,700	4	454,000	22	3,113,180
2.2	47	64,576,208	8	78,900	8	20,710,478	23	3,103,780
3.1	55	84,458,487	10	905,179	2	14,000	20	3,091,700
4.1	50	65,016,808	9	88,900	6	20,270,478	21	3,093,180
4.2	50	65,016,808	9	88,900	6	20,270,478	21	3,093,180
5.1	46	63,658,907	12	1,006,281	8	20,710,478	21	3,093,700

Ivo Polovineo
Company Secretary

Consolidated Media Holdings

Remuneration Report

This Remuneration Report (**Report**) outlines the remuneration arrangements for PBL's directors and senior executives in accordance with the requirements of the Corporations Act 2001 and its Regulations. It also provides the audited remuneration disclosures required by Accounting Standard AASB 124 'Related Party Disclosures' which have been included in accordance with Corporations Regulation 2M.6.04.

The remuneration disclosures in this Report cover the PBL key management personnel as follows:

1. from page 7, the senior executives of PBL, including certain Executive directors (Mr Anderson, Mr Alexander, Mr Craigie and Mr Chisholm) and all other executives having the authority and responsibility for planning, directing and controlling the activities of the PBL Group (the **Senior Executives**), which includes both the five executives of PBL and the five executives of the PBL Group receiving the highest remuneration for the year;
2. on page 21, the Executive Chairman Mr James Packer and Mr Kerry Packer as the Executive Deputy Chairman until 26 December 2005; and
3. from page 21, the Non-Executive Directors.

Remuneration Policy

The performance of the PBL Group is highly dependent upon the quality of its directors and senior executives. To prosper, the PBL Group must attract, retain and motivate skilled directors and senior executives of the highest calibre.

The PBL Group's Remuneration Policy is to ensure that executive remuneration packages properly reflect a person's duties and responsibilities, that remuneration is appropriate and competitive both internally and as against similarly sized industry peer group corporations, and that there is a direct link between remuneration and performance.

The structure and process for determining the remuneration of the PBL Group's Senior Executives and Non-Executive Directors is separate and distinct. Mr James Packer, Executive Chairman and Mr Kerry Packer, Executive Deputy Chairman until 26 December 2005, did not receive remuneration for their services to PBL during the year.

Internal processes have been established for determining the remuneration of the Senior Executives.

The Remuneration Committee bears the responsibility of determining the appropriate remuneration for the Non-Executive Directors. Following the passing of Mr Kerry Packer in December 2005 and the retirement of Sir Laurence Muir in March 2006, this task has been undertaken by the Executive Chairman. On 22 August 2006 Mr Chris Anderson, the Executive Deputy Chairman, was appointed as the second member of the Remuneration Committee.

(a) Senior Executives

The Senior Executives identified below were the executives who had the authority and responsibility for the planning, directing and controlling of the activities of the PBL Group during the financial year ended 30 June 2006. They include the five most highly remunerated executives of PBL and the PBL Group during the year. A number of the key management personnel were appointed to their positions during the year.

Executive Directors

Chris Anderson	Executive Deputy Chairman (appointed Executive Deputy Chairman 25 January 2006, previously Executive Director)
John Alexander	Chief Executive Officer & Managing Director
Rowen Craigie	Chief Executive Officer PBL Gaming; Chief Executive Officer Crown Limited; Executive Director
Sam Chisholm	Executive Director (resigned from the Board 13 July 2006; Consulting Agreement to terminate 15 October 2006)

OTHER KEY MANAGEMENT PERSONNEL

PBL

Martin Dalgleish	Chief Executive Officer New Media
Guy Jalland	Group General Counsel and Joint Company Secretary (appointed Company Secretary 24 August 2005)
Geoffrey Kleemann	Chief Financial Officer
Anthony Klok	Business Development Director
Pat O'Sullivan	Chief Operating Officer (commenced employment 1 February 2006)
Stephen Wright	Company Secretary (ceased employment 23 August 2005)

The PBL Group

David Courtney	Chief Executive Officer Burswood
David Gardiner	Deputy Chief Executive Officer ACP Magazines (ceased employment 3 July 2006)
Ian Law	Chief Executive Officer ACP Magazines (commenced employment 8 May 2006)
Eddie McGuire AM	Chief Executive Officer Nine Network Australia (appointed to role 9 February 2006)
Lynton Taylor	Executive Nine Network Australia (ceased employment 24 January 2006)

(b) Remuneration Structure for the Senior Executives

The remuneration structure incorporates a mix of fixed and performance-based remuneration. Senior Executives may be eligible to participate in PBL's Executive Share Plan (**ESP**). An overview of the ESP is set out on page 11.

The current broad relative weighting between fixed and variable components of remuneration are:

Percentage of Total Target Remuneration

Senior Executive	Fixed Remuneration	Short Term Incentive	Long Term Incentive (including ESP)
Executive Directors			
Chris Anderson	100%	0%	0%
John Alexander	45%	26%	29%
Sam Chisholm	100%	0%	0%
Rowen Craigie	41%	26%	33%
Other Key Management Personnel			
Martin Dalgleish	61%	36%	3%
Guy Jalland	67%	31%	2%
Geoffrey Kleemann	77%	21%	2%
Anthony Klok	57%	39%	4%
Pat O'Sullivan (from 1 February 2006)	75%	19%	6%
Stephen Wright	98%	0%	2%
David Courtney	44%	27%	29%
David Gardiner	100%	0%	0%
Ian Law (from 8 May 2006)	46%	35%	19%
Eddie McGuire	98%	0%	2%
Lynton Taylor	100%	0%	0%

Fixed remuneration

Fixed remuneration is determined with reference to available market data, considering the scope and any unique aspects of an individual's role and having regard to the calibre of the individual. Fixed remuneration typically includes base salary and superannuation, and in certain cases includes other benefits such as a motor vehicle or motor vehicle allowance, car parking, mobile telephone costs and club membership, aggregated to present the total employment cost (**TEC**) of the executive to PBL.

The objective of fixed remuneration is to provide a base level of remuneration which is appropriate to the Senior Executive's position, the geographic location of the Senior Executive, and is competitive in the market.

Fixed remuneration for the Senior Executives (except the CEO & Managing Director) is set and reviewed annually by the CEO & Managing Director of PBL and (if applicable) the head of the business division in which the Senior Executive is employed. The CEO & Managing Director may discuss and finalise the setting and review of fixed remuneration with the Executive Chairman.

The review process includes consideration of the performance of the Senior Executive, performance of the business division in which the Senior Executive is employed, relevant comparative remuneration in the market, and if necessary, external advice on policies and practices.

Fixed remuneration for the CEO & Managing Director is reviewed and set annually following consideration by the Executive Chairman, with reference to the performance of the CEO & Managing Director and the performance of PBL.

Unless otherwise noted in the Senior Executive's contract, any discretionary payments relating to the redundancy or retirement of a Senior Executive would be determined by the CEO & Managing Director, though the matter may be discussed and finalised with the Executive Chairman. Termination or discretionary payments to the CEO & Managing Director would be considered and approved by the Executive Chairman.

There have not been any sign on fees paid during the year as part of the consideration for any of the Senior Executives agreeing to hold their positions.

Performance-based remuneration

Performance-based components seek to align the rewards attainable by Senior Executives (excluding Mr Chisholm) with the achievement of particular objectives and the creation of shareholder value over the short and long term, and are detailed further below.

The Senior Executives that left during the year (Mr Gardiner, Mr Taylor and Mr Wright) did not receive performance-based remuneration.

(i) SHORT TERM INCENTIVES (STIs)

The remuneration of the Senior Executives is linked to PBL's short-term performance through a cash-based STI. These individuals may be paid an STI following an assessment conducted using a combination of financial and non-financial measures in the form of key performance indicators (**KPIs**), which includes the performance of the PBL Group over the past year. The employment contracts of some Senior Executives may specify an indicative maximum STI, and if applicable is set out in the summary of their employment contract from page 13.

The criteria for the award of an STI are the achievement of the KPIs established at the beginning of each financial year. The particular objectives principally focus on the achievement of the PBL Group's annual business plan and budget. Financial performance objectives (including performance against budgeted EBIT or performance against budgeted cash flow) have been chosen as PBL considers they are the best way to align performance outcomes with shareholder value. Performance is assessed with reference to annual financial statements.

Appropriate non-financial performance objectives (such as achievement of strategic goals, operational efficiencies, people management and development and execution of key initiatives) are also chosen where they are within a Senior Executive's sphere of influence and are relevant to the Senior Executive's area of work, as these metrics are aligned with the achievement of PBL's business plan.

The performance of each Senior Executive against the financial and non-financial KPIs is reviewed on an annual basis. Whether KPIs have been achieved is determined at the discretion of the CEO & Managing Director having regard to the operational performance of the division in which the Senior Executive is involved and the CEO & Managing Director's assessment of the attainment of the individual's KPIs. Where the Senior Executive is an employee of PBL, the CEO & Managing Director will review performance-based remuneration entitlements, and will determine the STI following reference to the Executive Chairman. Determination is the same for Senior Executives who are not employees of PBL but employees of the PBL Group, though the input of the relevant divisional CEO is also sought.

PBL deems it appropriate that the CEO & Managing Director (with the assistance of the divisional CEOs and Executive Chairman, as appropriate) assess the performance of each Senior Executive against their individual KPIs as he is best placed to review and assess whether the Senior Executive has met the performance conditions established with him (or the relevant divisional CEO) at the commencement of the financial year.

In the past, the CEO & Managing Director's eligibility for an STI has been determined by the Executive Deputy Chairman on behalf of the Board. This function is now to be performed by the Executive Chairman on behalf of the Board.

If a Senior Executive leaves the employ of PBL (except the CEO & Managing Director), it is at the discretion of the CEO & Managing Director whether to make payment of that year's STI to that individual. If the CEO & Managing Director leaves the employ of PBL, payment of STIs is at the discretion of the Board (or its nominee or Committee).

STIs for the 2005 financial year, which were not finalised at the time of the 2005 Annual Report, and STIs paid this year are detailed at (**f**) on page 20.

(ii) LONG TERM INCENTIVES (LTIs)

The Senior Executives listed below may be eligible to receive an LTI in the 2007, 2008, 2009 and 2010 financial years. No LTIs were paid, vested or forfeited this year. From 30 August 2006, the NSA Cash Bonus arrangements were cancelled and the Senior Executives and selected senior management of the PBL Gaming Division shall participate in the ESP. Further details are on page 12. The maximum possible total values of the LTI are identified below.

Senior Executive	NSA Cash Bonus (1) [1]					EBITDA Cash Bonus (2)			
	Total number of shares, LTI grant date	Base Share Price	Vesting Schedule (% of total shares and Test Date)			Amount (Maximum)	Apportionment and Test Date (payable where Gaming Division meets internal EBITDA target)		
			Year 3	Year 4	Year 5		Year 3 (30%)	Year 4 (20%)	Year 5 (50%)
John Alexander	1,000,000 9 June 2004	$12.52	30% 9 June 07	20% 9 June 08	50% 9 June 09	Does not participate – PBL Gaming Division executives only			
Rowen Craigie	500,000 1 July 2005	$14.87	30% 30 June 08	20% 30 June 09	50% 30 June 10	$5,000,000	$1,500,000 30 June 08	$1,000,000 30 June 09	$2,500,000 30 June 10
David Courtney	225,000 1 July 2005	$14.87	30% 30 June 08	20% 30 June 09	50% 30 June 10	$2,250,000	$675,000 30 June 08	$450,000 30 June 09	$1,125,000 30 June 10

[1] On 30 August 2006, PBL agreed to allot the following ESP shares: to Mr Alexander (1,000,000), Mr Craigie (500,000) and Mr Courtney (225,000). Mr Courtney no longer participates in the NSA Cash Bonus (50% of his PBL Gaming LTI). The proposed issues to Mr Alexander and Mr Craigie are subject to shareholder approval at the 2006 AGM (as required under ASX Listing Rule 10.14). If approved by shareholders, Mr Alexander and Mr Craigie will no longer participate in the NSA Cash Bonus (50% of Mr Craigie's PBL Gaming LTI). Further details of these proposed issues are set out at page 12.

(1)Notional Share Appreciation (NSA) Cash Bonus (cancelled 30 August 2006)

The remuneration of the Senior Executives listed above is linked to the PBL Group's long-term performance through the use of a cash-based LTI. This LTI has a share price performance hurdle attached, ensuring that an entitlement to a payment only accrues upon achievement of at least a 7% compound annual growth in share price from the share price at the time of granting the LTI. This rewards these executives for the long term growth in the PBL share price.

For an LTI entitlement to accrue, PBL's share price must appreciate by at least 7% per annum compound from the Base Share Price over the 5 year term. If the share price hurdle is not met at the relevant date, the percentage applicable to that tranche will be added to the percentage allocation for the next tranche.

The Company Secretary will determine if a share price hurdle has been met with reference to the PBL share price on the ASX and will provide the data to the CEO & Managing Director or Executive Chairman (as appropriate) for ratification.

If an LTI accrues, a portion is payable in the last 3 years of a 5 year term as indicated in the table above. If any portion vests, it is not subject to forfeiture. The Senior Executive may request payment of any vested portion by no later than 9 June 2009 (for Mr Alexander) and 60 days after 30 June 2010 (for Mr Craigie and Mr Courtney). The LTI is calculated by reference to the date of the election (Mr Alexander) or notice (Mr Craigie and Mr Courtney).

Subject to the terms of the executive's employment contract, if the Senior Executive's employment is terminated he will receive any deferred cash bonus in respect of which an entitlement has arisen but has not yet crystallised, with the calculation of the share price to be conducted at the termination date.

(2) Long Term Incentives for selected senior management of the PBL Gaming Division (PBL Gaming LTI)

A modification of the LTI applied during the year for the eligible Senior Executives listed above and selected senior management of the PBL Gaming Division. 50% of an executive's LTI is subject to achievement of the growth in PBL's share price as described at (1) and the balance is subject to the PBL Gaming Division achieving its internal EBITDA targets. The EBITDA performance condition seeks to reward these executives for the long term underlying earnings growth in the PBL Gaming Division.

Following the cancellation of the NSA Cash Bonus arrangements on 30 August 2006 (see page 12), these executives shall continue to be eligible for their EBITDA Cash Bonus portion of the PBL Gaming LTI.

The executives may earn the maximum EBITDA Cash Bonus apportioned over the financial years 2008, 2009 and 2010. The LTI for the Senior Executives will be paid in three tranches (outlined in the table above) if the PBL Gaming Division achieves the aggregate EBITDA internal targets for Crown and Burswood.

If the EBITDA target is not reached in any financial year, the amount of the EBITDA Cash Bonus for that year may be held over until FY10 and will be payable if the total aggregate EBITDA for Crown and Burswood for all 3 financial years exceeds the sum of the EBITDA internal targets for FY08, FY09 and FY10 in aggregate.

The CEO & Managing Director will determine if the EBITDA target has been met by reference to the audited financial reports of the Group, and will provide the data to the Executive Chairman for his ratification.

(iii) EXECUTIVE SHARE PLAN

An Executive Share Plan was approved by shareholders at the 1994 AGM. During the year, PBL made a number of issues under the ESP. The ESP permits the acquisition of PBL shares on the following basis:

- PBL directors determine the number of PBL shares issued to each eligible executive
- the total number of shares which can be issued under the ESP is limited to 2% of the issued share capital of PBL
- the price payable for each PBL share issued under the ESP is the weighted average share market price over the 5 business days up to and including the date that the offer of PBL shares is accepted, calculated by the Company Secretary
- on completion of each year of service after the issue date 25% of a participating executive's PBL shares is released from restrictions on transfer, with the loan repayable in year 5
- subscription monies are funded by a loan from PBL that is fully repayable after 5 years, or earlier, upon cessation of employment of the executive
- if a participating executive sells PBL shares which are no longer subject to transfer restrictions before the expiry of the 5 year period, the executive must apply the issue price for each PBL share towards repayment of the loan
- loan funds provided by PBL to acquire shares are provided on a limited recourse basis
- interest payable on the loan funds is equal to dividends received on the relevant PBL shares from time to time

In order to align the entitlement to incentives under the ESP to the growth in the price of PBL shares, all ESP shares issued after 21 February 2006 were subject to an additional share price performance condition, requiring a 7% compound annual growth in the PBL share price in order for the relevant portion of shares to vest and be released from the restrictions under the ESP. If a share price hurdle is not exceeded, that 25% share parcel remains restricted until the hurdle is exceeded on a subsequent anniversary (if the hurdle is ultimately not exceeded, the shares will be transferred back to PBL).

Determination that hurdles have been achieved will be provided to the CEO & Managing Director by the Company Secretary. This performance condition does not apply to issues existing from previous years, as well as to the issue to Mr McGuire on 10 February 2006.

Only executives of PBL can participate in the ESP and Mr James Packer has requested not to participate. At the date of this Report, a total of 6,785,000 ESP shares are on issue, representing 1% of PBL's capital.

The Senior Executives who have ESP Shares for which loans are still outstanding, or have repaid loans during the year, are as follows:

Senior Executive	Date of Allotment	Issue Price per Share	Number of ESP Shares Issued	Original Loan	Released from limitations during the year (%)	Loan Outstanding	Number of ESP Shares for which Loan Still Outstanding	Loan Repayment Date
Issues during the year								
Eddie McGuire	10 Feb 06	$16.00	500,000	$8,000,000	0%	$8,000,000	500,000	10 Feb 11
Ian Law	23 Feb 06	$16.16	500,000	$8,080,000	0%	$8,080,000	500,000	23 Feb 11
Martin Dalgleish	23 Feb 06	$16.16	240,000	$3,878,400	0%	$3,878,400	240,000	23 Feb 11
Anthony Klok	23 Feb 06	$16.16	240,000	$3,878,400	0%	$3,878,400	240,000	23 Feb 11
Pat O'Sullivan	23 Feb 06	$16.16	240,000	$3,878,400	0%	$3,878,400	240,000	23 Feb 11
Guy Jalland	23 Feb 06	$16.16	240,000	$3,878,400	0%	$3,878,400	240,000	23 Feb 11
Geoffrey Kleemann	23 Feb 06	$16.16	240,000	$3,878,400	0%	$3,878,400	240,000	23 Feb 11
David Courtney	23 Feb 06	$16.16	175,000	$2,828,000	0%	$2,828,000	175,000	23 Feb 11
Issues from previous years								
Anthony Klok	19 Oct 01	$9.07	200,000	$1,814,000	25%	$680,250	75,000	19 Oct 06
Stephen Wright	02 Jul 01	$8.99	12,500	$112,375	25%	Nil – repaid 28 June 2006	Nil – repaid 28 June 2006	Repaid
	11 Nov 02	$8.10	50,000	$405,000	25%	$405,000	50,000	11 Nov 07
Issues after the end of the financial year								
David Courtney	30 Aug 06	$17.82	225,000	$4,009,500	0%	$4,009,500	225,000	30 Aug 11
Issues to Executive Directors (subject to shareholder approval under ASX Listing Rule 10.14)								
Chris Anderson	23 Feb 06	$16.16	300,000	$4,848,000	0%	Not yet issued. Subject to shareholder approval at 2006 AGM		
John Alexander	23 Feb 06	$16.16	300,000	$4,848,000	0%			
	30 Aug 06	$17.82	1,000,000	$17,820,000	0%			
Rowen Craigie	23 Feb 06	$16.16	350,000	$5,656,000	0%			
	30 Aug 06	$17.82	500,000	$8,910,000	0%			

Under ASX Listing Rule 10.14, ESP shares can only be issued to the Directors of PBL if approved by an ordinary resolution of PBL shareholders. On 23 February 2006 and 30 August 2006, subject to approval by PBL shareholders at the 2006 AGM, PBL agreed to allot the ESP shares to Mr Anderson, Mr Alexander and Mr Craigie identified on page 11. If approved, these shares shall form part of a long term incentive recognising the executive role of each Director with PBL.

On 30 August 2006 the employment contracts for Mr Courtney and the senior management of the PBL Gaming Division participating in the PBL Gaming LTI were amended to cancel the NSA component of their LTI, and in its place to allot ESP shares. Also with effect from that date it was agreed that a similar component of the LTI arrangements for Mr Alexander and Mr Craigie be converted , subject to shareholder approval at the 2006 AGM. These proposed issues are set out in the table on page 11. Mr Craigie and Mr Courtney shall continue to be eligible for the EBITDA Cash Bonus portion of the LTI.

If shareholders approve the issue of ESP shares to Mr Alexander and Mr Craigie, the Company will cancel the NSA component of their LTI and will make a payment to Mr Alexander and Mr Craigie to reflect the value which had accrued in the NSA to 30 August 2006. The Company has agreed to pay Mr Alexander $5,300,000 on 9 June 2007 and Mr Craigie $1,475,000 on 1 July 2008, being the third anniversary of their participation in the LTI.

If the issues of ESP shares to Directors are approved by shareholders at the 2006 AGM, a total of 9,235,500 ESP shares will be on issue, representing 1.35% of PBL's capital.

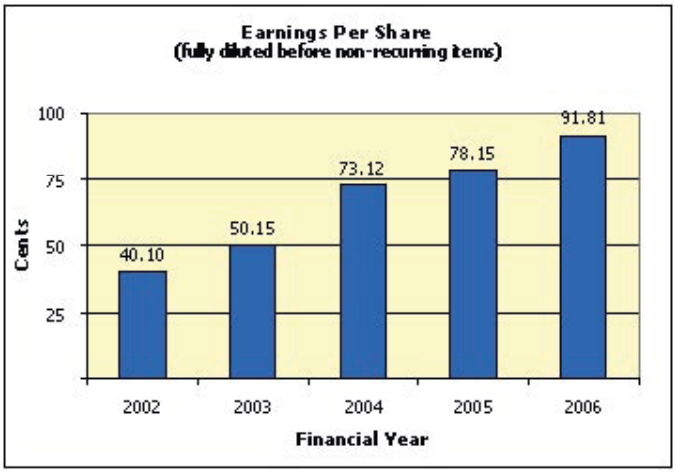
(c) Relationship between remuneration and the performance of PBL

The remuneration of Senior Executives is linked to PBL's short-term performance through the STI. Individuals may be paid an STI at the discretion of the CEO & Managing Director where the individual achieves his or her KPIs, assessed using a combination of financial measures (which includes the performance of PBL over the past year) and non-financial measures as outlined on page 9.

The remuneration of certain Senior Executives is also linked to PBL's long term performance through the LTI. The LTI has a share price performance hurdle attached, which ensures that a payment is only made upon achievement of at least a 7% compound annual growth in PBL's share price over the term. For certain Senior Executives of the PBL Gaming Division, the growth in PBL's share price governs 50% of the LTI (previously through the NSA, but from 30 August 2006 through the ESP) and the balance rests on achieving internal EBITDA targets for the PBL Gaming Division.

Issues made during the year under the PBL ESP (apart from the issue to Mr McGuire) are subject to a share price performance hurdle of 7% compound annual growth in PBL's share price.

The graph below shows the shareholder return (comprising share price changes and dividends paid) of PBL and the ASX100 over the past 5 years. A table detailing PBL's EPS over the past 5 years is included below.



(d) Summary of the Senior Executives' employment contracts

Senior Executives are employed under service agreements with PBL or a business of the PBL Group. Common features to these service agreements include (unless noted otherwise):

- an entitlement to 4 weeks' annual leave, and up to 4 weeks' paid sick leave each year
- an annual review of the executive's fixed remuneration, with any increases at the discretion of the CEO & Managing Director or Executive Chairman (with some agreements requiring a minimum increase of CPI)
- reimbursement of reasonable out of pocket expenses incurred in connection with the executive's employment
- PBL may ask the executive to act as an officer of PBL or as an officer or director of a member or associate of the PBL Group for no additional remuneration
- for PBL Gaming Division Senior Executives, a prohibition from gambling at any gaming facility of the PBL Gaming division during the term of employment and for 3 months following termination, and a requirement that the executive maintain licences required and issued by relevant regulatory authorities (such as the Victorian Commission for Gambling Regulation and the Western Australian Gaming and Wagering Commission)
- where post-employment restraints apply, a restraint covering, amongst other things, competitive activities to those of the PBL Group. Restraint periods vary and have been noted in each instance
- where an employment agreement is terminated by PBL, notice may be given in writing or payment may be made (wholly or partly), in lieu of notice
- all contracts may be terminated without notice by PBL for serious misconduct

Details of each Senior Executive's contract of employment are summarised below. Where a Senior Executive has had more than one contract of employment during the year the most recent contract is listed, and changes to the previous contract are noted. Where a term in a Senior Executive's contract has been updated (for instance, base salary) the change is noted. The summaries should be read in conjunction with the PBL Group's Remuneration Policy on page 7 and the disclosures on fixed and performance-based remuneration from page 9.

EXECUTIVE DIRECTORS

CHRIS ANDERSON	
Positions	Executive Director PBL. Mr Anderson is also the Executive Deputy Chairman of PBL. He does not receive additional remuneration for performing his functions and duties as Executive Deputy Chairman of the PBL Board.
Term	Until 1 August 2011.
Fixed Remuneration	
Base salary	$1,200,000 per annum.
Superannuation	PBL contributes 9% of Base salary.
Performance-based Remuneration	
STI	Discretionary STI assessed by Executive Chairman and CEO & Managing Director based on the achievement of his KPIs (commencing from the 2006/7 financial year).
Termination	
By Mr Anderson	6 months' notice.
By PBL	2 months' notice without cause; 6 months' notice for performance issues without an opportunity to improve provided; 3 months' notice for performance issues where at least 3 months' opportunity to improve provided; 1 month's notice for incapacity where he is absent for 16 weeks in any 12 month period.
Post Employment Restraint	PBL may impose a restraint period of up to 6 months. If PBL does so, Mr Anderson is entitled to be paid his net base salary and superannuation during the restraint period.
Directors' fees	Mr Anderson does not receive Directors' fees for acting as an Executive Director and Executive Deputy Chairman of PBL nor any fees for his participation on boards at PBL's request, including the boards of FOXTEL, FOX SPORTS (Premier Media Group), ninemsn, Hoyts and Sky News. Mr Anderson received a net directors' fee of $34,223 from SEEK which was reimbursed to PBL.

JOHN ALEXANDER

Position	Chief Executive Officer & Managing Director PBL.
Term	Until 13 December 2009.
Fixed Remuneration	
Base salary	$3,075,000 per annum (reviewed 17 October 2005 from $3,000,000 and effective from 9 June 2005).
Superannuation	PBL contributes 9% of Base salary.
Other benefits	Mobile telephone. Use of motor vehicle and driver. Applicable fringe benefits taxes.
Performance-based Remuneration	
STI	Discretionary STI to a maximum of $1,000,000 assessed by Executive Chairman based on the achievement of his KPIs. A further STI of up to $1,000,000 may be paid at the discretion of the PBL Board (or its nominee or delegated committee) if PBL's performance substantially exceeds that set out in the business plan and represents an exemplary outcome.
LTI	Details of Mr Alexander's participation in the LTI are outlined on page 10.
Termination	
By Mr Alexander	6 months' notice.
By PBL	12 months' notice without cause; 6 months' notice for performance issues without an opportunity to improve provided; 3 months' notice for performance issues where at least 3 months' opportunity to improve provided; 1 month's notice for incapacity where he is absent for 16 weeks in any 12 month period.
Post Employment Restraint	PBL may impose a restraint period of up to 12 months. If PBL does so, Mr Alexander is entitled to be paid his net base salary and superannuation during the restraint period.

ROWEN CRAIGIE

Positions	Chief Executive Officer PBL Gaming; Chief Executive Officer Crown Limited; Executive Director PBL.
Term	Until 30 June 2010.
Fixed Remuneration	
Base salary and superannuation	$1,800,000 TEC per annum (increased from $1,400,000 on 1 March 2006).
Other benefits	Complimentary privileges at Crown and Burswood facilities. Mobile telephone.
Performance-based Remuneration	
STI	Discretionary STI based on the achievement of his KPIs.
LTI	Details of Mr Craigie's participation in the PBL Gaming LTI are outlined on page 10.
Termination	
By Mr Craigie	12 months' notice.
By PBL	12 months' notice without cause; 1 months' notice for performance issues where at least 3 months' opportunity to improve provided; 3 months' notice for incapacity where Mr Craigie was absent for 6 months in a 12 month period or if an independent medical officer advises that the executive's health had deteriorated to such a degree that the executive should leave PBL.
Post Employment Restraint	Various restraint periods up to 36 months. Depending on the circumstances, Mr Craigie may be entitled to an additional payment for the restraint. Mr Craigie may also be paid an amount equivalent to his monthly TEC for any period during which a restraint applies.
Termination payments	Provided that Mr Craigie complies with any restraints imposed on him: If Mr Craigie terminates his employment with PBL or PBL terminates his employment for serious misconduct, performance issues or incapacity, he will be entitled to any unpaid EBITDA Cash Bonus and to any vested NSA Cash Bonus. Thereafter, Mr Craigie will cease to be involved in the LTI. If PBL terminates Mr Craigie's employment without cause, Mr Craigie will be entitled to any unpaid EBITDA Cash Bonus and to any vested NSA Cash Bonus. Mr Craigie may also elect either to end his participation in the LTI and receive a payment of 24 months' TEC or continue a pro-rated participation (calculated by reference to the number of completed months in the 5 year term) in the LTI.

SAM CHISHOLM

Positions	Executive Director PBL (previously Executive Director, Television). On 9 February 2006, Mr Chisholm's consultancy agreement and title were varied by Agreement to the provision of advice to management at Nine, as well as to the PBL Group. Mr Chisholm resigned from the PBL Board on 13 July 2006.
Term	2 years (agreed on 13 July 2006 to terminate on 15 October 2006).
Fixed Remuneration	
Consulting Services Fee	$2,000,000 per annum.
Superannuation	Mr Chisholm pays his superannuation contributions.
Termination	
By Mr Chisholm	90 days' notice.
By PBL	By payment of 1 years' Consulting Services Fee (plus GST).
Termination payment	On 13 July 2006 it was agreed Mr Chisholm's arrangements with PBL would cease on 15 October 2006. Until that date he will receive the monthly portion of his Consulting Services Fee and on 15 October 2006 he will be paid a termination payment of $1,099,998.
Directors' fees	Mr Chisholm did not receive Directors' fees from PBL.

OTHER KEY MANAGEMENT PERSONNEL

MARTIN DALGLEISH

Position	Chief Executive Officer New Media (new title from 12 July 2006).
Term	Until 12 July 2011 (extended from earlier dates by Agreement dated 12 July 2006).
Fixed Remuneration	
Base salary	$600,000 per annum (increased from $550,000 by Agreement dated 12 July 2006).
Superannuation	PBL contributes 9% of Base salary and any STI.
Other benefits	Mobile telephone. Motor vehicle allowance of $50,000 per annum. Motor vehicle parking. Applicable fringe benefit taxes.
Performance-based Remuneration	
STI	Discretionary STI to a maximum of $600,000 (maximum amount inserted by Agreement dated 12 July 2006) based on the achievement of his KPIs.
Termination	
By Mr Dalgleish	6 months' notice.
By PBL	6 months' notice without cause; 1 months' notice due to incapacity.
Post Employment Restraint	3 months' restraint period. Mr Dalgleish is entitled to be paid an amount to be agreed during the restraint period or, in the absence of agreement, his monthly base salary each month.

GUY JALLAND

Position	Group General Counsel and Joint Company Secretary PBL (appointed Company Secretary 24 August 2005).
Term	Until 30 October 2008.
Fixed Remuneration	
Base salary	$1,100,000 per annum (increased from $1,028,415 on 1 September 2005).
Superannuation	PBL contributes $11,585 per annum.
Performance-based Remuneration	
STI	Discretionary STI based on the achievement of his KPIs.
Termination	
By Mr Jalland	6 months' notice.
By PBL	6 months' notice without cause; 3 months' notice for performance issues (following 3 months' notice to improve); 1 months' notice due to incapacity.
Post Employment Restraint	PBL may impose a restraint period of up to 12 months. If PBL does so, Mr Jalland is entitled to be paid his net base salary and superannuation during the restraint period.

GEOFFREY KLEEMANN

Position	Chief Financial Officer PBL.
Term	Until 30 June 2009.
Fixed Remuneration	
Base salary and superannuation	$1,285,000 TEC per annum (increased from $1,250,000 by Agreement dated 29 November 2005)
Other benefits	Mobile telephone.
Performance-based Remuneration	
STI	Discretionary STI of 25% of his TEC based on the achievement of his KPIs.
Termination	
By Mr Kleemann	6 months' notice (after 1 January 2009).
By PBL	6 months' notice without cause (after 1 January 2009); 6 months' notice for performance issues (following 3 months' notice to improve); 2 months' notice due to incapacity (inserted by Agreement on 29 November 2005 – previously both parties to provide reasonable notice).
Post Employment Restraint	PBL may impose a restraint period of up to 6 months. If PBL does so, Mr Kleemann is entitled to be paid his net TEC during the restraint period.

ANTHONY KLOK

Position	Business Development Director PBL.
Term	Rolling contract.
Fixed Remuneration	
Base salary and superannuation	$565,000 TEC per annum.
Other benefits	Home telephone, mobile and internet services.
Performance-based Remuneration	
STI	Discretionary STI based on the achievement of his KPIs.
Termination	
By Mr Klok	3 months' notice.
By PBL	3 months' notice due to incapacity.
Post Employment Restraint	6 months' restraint period upon termination without cause or for incapacity and for a paid restraint upon expiration of the Term.

PAT O'SULLIVAN

Position	Chief Operating Officer PBL (commencing 1 February 2006).
Term	Until 31 January 2011.
Fixed Remuneration	
Base salary and superannuation	$1,200,000 TEC per annum.
Other benefits	Mobile telephone. Motor vehicle parking.
Performance-based Remuneration	
STI	Discretionary STI to a maximum of $300,000 based on the achievement of his KPIs.
Termination	
By Mr O'Sullivan	6 months' notice (after 30 July 2008).
By PBL	6 months' notice without cause (after 30 July 2008); 6 months' notice for performance issues (following 3 months' notice to improve performance); 2 months' notice due to incapacity.

STEPHEN WRIGHT

Position	Company Secretary (ceased employment on 23 August 2005).
Term	Completed.
Fixed Remuneration	
Base salary and superannuation	$396,758 TEC per annum.
Other benefits	Mobile phone.
Termination	
By Mr Wright	3 months' notice.
By PBL	3 months' notice without cause; 1 months' notice for performance issues (following 3 months' notice to improve); 2 months' notice due to incapacity.
Termination payment	Mr Wright was paid a termination payment upon termination of his employment on 23 August 2005 of $793,516.

DAVID COURTNEY

Position	Chief Executive Officer Burswood.
Term	Until 30 June 2010.
Fixed Remuneration	
Base salary and superannuation	$900,000 TEC per annum (with effect from 1 March 2006 by Agreement dated 19 April 2006).
Other Benefits	Complimentary privileges at Crown and Burswood facilities. Annual return airfares between Perth and Melbourne for Mr Courtney and his family. Mobile telephone.
Performance-based Remuneration	
STI	Discretionary STI based on the achievement of his KPIs.
LTI	Details of Mr Courtney's participation in the LTI are outlined on page 66.
Termination	
By Mr Courtney	12 months' notice.
By PBL	12 months' notice without cause; 1 months' notice for performance issues (following 3 months' notice to improve); 3 months' notice due to incapacity.
Post Employment Restraint	Various restraint periods up to 36 months. Depending on the circumstances, Mr Courtney may be entitled to an additional payment for the restraint (see Termination Payments below). Mr Courtney may also be paid an amount equivalent to his monthly TEC for any period during which a restraint applies.
Termination payments	Provided that Mr Courtney complies with any restraints imposed on him: If Mr Courtney terminates his employment with PBL or PBL terminates his employment for serious misconduct, performance issues or incapacity, he will be entitled to any unpaid EBITDA Cash Bonus and to any vested NSA Cash Bonus. Thereafter, Mr Courtney will cease to be involved in the LTI. If PBL terminates Mr Courtney's employment without cause, Mr Courtney will be entitled to any unpaid EBITDA Cash Bonus and to any vested NSA Cash Bonus. Mr Courtney may also elect either to end his participation in the LTI and receive a payment of 24 months' TEC or continue a pro-rated participation (calculated by reference to the number of completed months in the 5 year term) in the LTI.

DAVID GARDINER

Position	Deputy Chief Executive Officer ACP Magazines
Term	Ceased employment on 3 July 2006.
Fixed Remuneration	
Base salary and superannuation	$772,500 TEC per annum (increased from $750,000 by Agreement dated 14 October 2005).
Performance-based Remuneration	
STI	Discretionary STI based on the achievement of his KPIs.
Termination	
By Mr Gardiner	6 months' notice (after 1 April 2007).
By ACP	9 months' notice without cause (after 1 January 2007); 6 months' notice for performance issues (following 3 months' notice to improve); 2 months' notice due to incapacity.
Termination payment	Mr Gardiner was paid a termination payment upon termination of his employment on 3 July 2006 of $980,500

IAN LAW

Position	Chief Executive Officer ACP Magazines Limited (commencing 8 May 2006)
Term	Rolling contract.
Fixed Remuneration	
Base salary and superannuation	$1,350,000 TEC per annum.
Other benefits	Mobile telephone.
Performance-based Remuneration	
STI	Discretionary STI to a maximum of $750,000 based on the achievement of his KPIs.
Termination	
By Mr Law	6 months' notice (after 7 November 2010).
By ACP	12 months' notice without cause (after 7 May 2010); 6 months' notice for performance issues (following 6 months' notice to improve); 2 months' notice due to incapacity.
Post Employment Restraint	PBL may impose a restraint period of up to 6 months. If PBL does so, Mr Law is entitled to be paid his net base salary and superannuation contributions during the restraint period.

EDDIE MCGUIRE AM

Position	Chief Executive Officer Nine Network Australia (appointed to role 9 February 2006).
Term	5 years.
Comments	On 20 August 2004, Nine entered into a services agreement with McGuire Media Pty Limited, a company controlled by Mr McGuire, to procure the services of Mr McGuire as an on-air presenter and for talent support, sales and production services. On 9 February 2006 those parties entered into a further agreement to vary the services to be provided to be predominantly those of CEO of Nine.
Fixed Remuneration	
Annual Fee	$4,000,000.
Nine Network Directors fee	$10,000 per annum.
Other benefits	Unused entitlement to two motor vehicles. $250,000 relocation expenses. Applicable fringe benefits tax. Superannuation and leave entitlements provided by McGuire Media.
Performance-based Remuneration	
STI	Discretionary STI assessed by the Executive Chairman and CEO & Managing Director of PBL.
Termination	
By McGuire Media	With cause, on 14 days' notice.
By Nine	With cause by notice if Mr McGuire or McGuire Media due to illness or incapacity are unable to provide the services for an aggregate period exceeding 13 weeks in any one year; for performance issues after notice from Nine. The right of Nine to terminate shall not apply where McGuire Media offers compensation for any loss sustained by Nine.
Termination payments	Where Nine terminates for cause Nine must pay to McGuire Media 12 months' fee. Where Nine terminates without cause, it may (depending on the circumstances) be liable to pay the remaining fees for the unexpired Term.
Restraints	McGuire Media and Mr McGuire are restrained during the Term from engaging in competition with and soliciting customers or employees of, the PBL Group. Nine has rights of first offer and negotiation and last refusal for any agreement contemplated by them to provide any on-air presentation, host or guest services.

LYNTON TAYLOR	
Position	Executive Nine Network Australia.
Term	Until 10 April 2010 (Mr Taylor ceased employment with PBL on 24 January 2006)
Fixed Remuneration	
Base salary	$1,000,000 per annum.
Superannuation	PBL contributed 10% of Base salary.
Other benefits	Mobile telephone. Motor vehicle allowance of $57,000 per annum. Home office equipment (telephone, computer, printer, facsimile equipment).
Termination	
By Mr Taylor	Reasonable notice required.
By PBL	No notice required for termination with cause.
Post Employment Restraint	6 months' restraint period upon termination.
Termination Payment	Mr Taylor received a termination payment of $1,590,000.

(f) Senior Executives' remuneration table

The table below provides a summary of the remuneration details for each Senior Executive for the years ended 30 June 2006 and 30 June 2005.

		SHORT TERM BENEFITS				POST EMPLOYMENT BENEFITS			SHARE BASED PAYMENTS		
		Salary & Fees($)	Non Monetary($)	STI($)	% of max STI	Super($)	Termination Benefits($)	Other Long Term Benefits	Cash based	Equity based	Total($)
Chris Anderson Executive Deputy Chairman	2006 2005	1,100,000 919,618	4,194 915	- -	- -	99,000 82,766	- -	- -	- -	- -	1,203,194 1,003,299
John Alexander CEO & Managing Director	2006 2005	3,079,545 3,106,151	51,429 105,093	2,000,000 1,800,000	100 90	278,693 279,553	- -	- -	2,247,274 539,413	- -	7,656,941 5,830,210
Sam Chisholm Executive Director	2006 2005	2,000,000 916,662	- -	- -	- -	- 11,585	- -	- -	- -	- -	2,000,000 928,247
Rowen Craigie CEO PBL Gaming; CEO Crown Limited; Executive Director	2006 2005	1,521,194 1,354,350	32,547 249,691	1,000,000 500,000	100 100	12,139 11,585	- -	- -	1,264,286 -	- -	3,830,166 2,115,626
Martin Dalgleish CEO New Media	2006 2005	600,000 276,190	5,812 915	400,000 200,000	100 100	72,000 13,500	- -	- -	- -	40,399 -	1,118,211 490,605
Guy Jalland Group General Counsel & Joint Company Secretary	2006 2005	1,080,673 685,610	- 754	500,000 300,000	100 100	12,139 8,602	- -	- -	- -	40,399 -	1,633,211 994,966
Geoff Kleemann CFO	2006 2005	1,102,519 1,073,800	29,850 59,338	350,000 300,000	109 100	164,996 187,915	- -	- -	- -	40,399 -	1,687,764 1,621,053
Anthony Klok Business Development Director	2006 2005	525,414 496,083	7,612 -	400,000 350,000	100 100	44,166 39,391	- -	- -	- -	40,399 30,963	1,017,591 916,437
Pat O'Sullivan Chief Operating Officer	2006 2005	494,942 Not in role	2,097 -	125,000 -	41* -	5,058 -	- -	- -	- -	40,399 -	667,496 -
Stephen Wright Company Secretary	2006 2005	63,977 287,646	21,189 42,791	- -	- -	9,646 56,091	793,516 -	113,098 -	- -	23,750 5,807	1,025,176 392,335
David Courtney CEO Burswood	2006 2005	807,392 664,802	66,972 120,582	550,000 300,000	100 100	12,139 34,893	- -	- -	568,929 N/A	29,458 -	2,034,890 1,120,277
David Gardiner Deputy CEO ACP Magazines	2006 2005	759,031 614,591	6,748 48,613	- 250,000	- 100	70,625 64,309	980,500 -	126,876 -	- -	- -	1,943,780 977,513
Ian Law CEO ACP Magazines	2006 2005	197,759 Not in role	- -	150,000 -	20* -	2,023 -	-	- -	- -	84,164 -	433,946 -
Eddie McGuire CEO Nine Network Australia	2006 2005	4,543,683 Not in role	67,416 -	- -	- -	- -	- -	- -	- -	91,747 -	4,702,846 -
Lynton Taylor Executive Nine Network Australia	2006 2005	660,699 251,012	5,413 -	- -	- -	58,712 22,917	1,590,000 -	- -	- -	- -	2,314,824 273,929

* Reflecting pro-rata entitlement for part year service

(g) Mr James Packer, Executive Chairman and Mr Kerry Packer, Executive Deputy Chairman (until 26 December 2005)

The Executive Chairman, Mr James Packer does not, and the Executive Deputy Chairman, Mr Kerry Packer did not receive any remuneration for their services to PBL. Following the passing of Mr Kerry Packer on 26 December 2005, on 25 January 2006 Mr Chris Anderson was appointed Executive Deputy Chairman of the Board. Mr Anderson is an Executive Director, and details of his employment agreement are set out on page 13.

Mr James Packer acts as a director of SEEK Limited, carsales.com.au, ninemsn and Melco PBL Entertainment (Macau) Ltd, companies in which PBL has a significant investment. Mr Packer does not receive a fee from PBL for these services. This year SEEK Limited paid Mr Packer net directors' fees of $50,474 which were reimbursed to PBL.

(h) Non-Executive Directors

At the date of this Report, the Non-Executive Directors of PBL are Mr Christopher Corrigan, Mrs Rowena Danziger, Mr Geoffrey Dixon, Mr Ashok Jacob, Mr Michael Johnston, Mr David Lowy, Mr Christopher Mackay and Mr Richard Turner. Details of each Director's date of appointment to the Board are outlined in the Directors' Statutory Report on page 24.

Mr Graham Cubbin, Mr Robert Whyte and Sir Laurence Muir left the Board during the year on 16 December 2005, 3 March 2006 and 8 March 2006 respectively.

The PBL Group's processes for determination of remuneration of the Non-Executive Directors vary. Each process is undertaken annually to assess the appropriateness of the nature and amount of the remuneration of the Non-Executive Directors with the objective of ensuring maximum benefit for PBL from the retention of a high quality board.

NON-EXECUTIVE DIRECTORS WHO ARE EXECUTIVES OF CONSOLIDATED PRESS HOLDINGS LIMITED (CPH)

Non-Executive Directors who are executives of CPH, being Mr Graham Cubbin (until 16 December 2005), Mr Ashok Jacob, and Mr Michael Johnston (from 16 December 2005), do not receive remuneration from PBL.

DIRECTORS' FEES

During the year the Non-Executive Directors received a base fee of $85,000 for acting as a director of PBL. On 22 August 2006, the Board Remuneration Committee resolved to increase Directors' Fees to Non-Executive Directors to $100,000 per annum, with effect from 1 July 2006. A Non-Executive Director who acts on the Board of Crown Limited received a further Directors' fee of $60,000.

Non-Executive Directors' Fees are determined within an aggregate Non-Executive Directors' Fee cap of $1,000,000 which was approved by PBL shareholders at the 2003 AGM.

Within the cap, the Board seeks to set the remuneration of a Non-Executive Director at a level which provides PBL with the ability to attract and retain Non-Executive Directors of a high calibre, whilst incurring a cost which is acceptable to shareholders. Fees to Non-Executive Directors reflect the demands made and responsibilities of Non-Executive Directors.

Non-Executive Directors' fees are reviewed periodically by the Remuneration Committee with reference taken to the fees paid to the non-

executive directors of comparable companies. The Remuneration Committee is subject to the direction and control of the Board. The Committee comprises:

- Mr James Packer, Chairman of the Committee and Executive Chairman of PBL (appointed to the Committee on 25 January 2006 following the passing of Mr Kerry Packer on 26 December 2005)
- Mr Chris Anderson, Executive Deputy Chairman of PBL (appointed to the Committee on 22 August 2006 following the retirement of Sir Laurence Muir on 8 March 2006).

The purpose of the Committee is to review and recommend to the Board the fees to be paid to the Non-Executive Directors. In forming a view of the appropriate level of Board fees to be paid to Non-Executive Directors, the Committee may also elect to receive advice from independent remuneration consultants if necessary.

The Board deems it appropriate that Mr James Packer, who is not an independent director of PBL and does not receive remuneration from PBL, Chair this Committee.

Whilst the composition and responsibilities of the Committee are not entirely consistent with the requirements of the ASX Corporate Governance Council's Best Practice Recommendation 9.2, the Board considers that the existing processes in place in relation to Non-Executive Director remuneration achieve and reflect the outcomes embodied in the Best Practice Recommendation.

No performance-based fees are paid to Non-Executive Directors. Non-Executive Directors are not entitled to participate in the ESP. Non-Executive Directors are not provided with retirement benefits other than statutory superannuation at the rate prescribed under the Superannuation Guarantee legislation.

While PBL does not have any retirement scheme for Non-Executive Directors, the Executive Chairman and Executive Deputy Chairman may consider making a payment to a retiring Non-Executive Director and will have regard to the length of service and contribution of the retiring Non-Executive Director, and will consider the appropriateness and reasonableness of the amount in the light of payments made in companies of a size comparable to PBL.

A retirement payment of $385,543 was made to Sir Laurence Muir to reflect his contributions to the Board following his retirement on 8 March 2006. The Executive Chairman determined that this amount was both reasonable and appropriate given the extensive service provided by Sir Laurence to both the Board of PBL and its predecessor over 14 years. This payment represented the total remuneration received by Sir Laurence from the PBL Group during the last three years prior to his retirement. Sir Laurence Muir continues as a director of Crown Limited.

COMMITTEE CHAIR AND COMMITTEE MEMBERSHIP FEES

On 27 September 2005, the Remuneration Committee resolved that an additional fee of $10,000 be paid to independent Non-Executive Directors who act as a Chairperson of a Board Committee. This fee took effect from 1 July 2005.

On 22 August 2006, the Remuneration Committee resolved to increase Chair Fees to $20,000 per annum and, except where the independent Non-Executive Director chairs the Committee, to introduce a fee of $10,000 for acting as a member of a Committee. These fees took effect from 1 July 2006.

(i) Directors' remuneration table

The table below provides a summary the remuneration details for each Director (excluding the Executive Directors that are Senior Executives and disclosed under (**f**) on page 20) for the years ended 30 June 2006 and 30 June 2005.

		SHORT TERM BENEFITS				POST EMPLOYMENT BENEFITS			SHARE BASED PAYMENTS		
		Salary & Fees($)	Non Monetary($)	STI($)	% of max STI	Super($)	Termination Benefits($)	Other Long Term Benefits	Cash based	Equity based	Total($)
James Packer Executive Chairman	2006 2005	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -
Kerry Packer Former Executive Deputy Chairman (to 26 Dec 05)	2006 2005	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -
Chris Corrigan Non-Executive Director	2006 2005	26,793 Appointed to Board in 2006	-	- -	- -	2,411 -	- -	- -	- -	- -	29,204 -
Graham Cubbin Non-Executive Director	2006 2005	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -
Rowena Danziger Non-Executive Director	2006 2005	155,000 145,000	- -	- -	- -	13,950 13,050	- -	- -	- -	- -	168,950 158,050
Geoff Dixon Non-Executive Director	2006 2005	- Appointed to Board in 2006	-	- -	- -	- -	- -	- -	- -	- -	- -
Ashok Jacob Non-Executive Director	2006 2005	- -	- -	- --	- -	- -	- -	- -	- -	- -	- -
Michael Johnston Non-Executive Director	2006 2005	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -
David Lowy Non-Executive Director	2006 2005	- Appointed to Board in 2006	-	- -	- -	- -	- -	- -	- -	- -	- -
Chris Mackay Non-Executive Director	2006 2005	26,793 Appointed to Board in 2006	-	- -	- -	2,411 -	- -	- -	- -	- -	29,204 -
Sir Laurence Muir Non-Executive Director	2006 2005	118,514 145,000	- -	- -	- -	- -	385,543 -	- -	- -	- -	504,057 145,000
Richard Turner Non-Executive Director	2006 2005	175,000 145,000	- -	- -	- -	15,750 13,050	- -	- -	- -	- -	190,750 158,050
Robert Whyte Non-Executive Director	2006 2005	58,948 85,000	- -	- -	- -	5,305 7,650	- -	- -	- -	- -	64,253 92,650

PUBLISHING AND BROADCASTING LIMITED
ABN 52 009 071 167
LEVEL 2, 54-58 PARK STREET
SYDNEY NSW 1028
POSTAL ADDRESS
GPO BOX 4088
SYDNEY NSW 1028
AUSTRALIA
TELEPHONE: (612) 9282 8000
FACSIMILE: (612) 9282 8828

26 September 2006

Companies Announcement Office
Australian Stock Exchange Ltd
Exchange Centre
20 Bridge Street
Sydney NSW 2000

via electronic lodgement

Dear Sirs

Notice of Annual General Meeting and Proxy Form

We attach for your information copies of the following which will be mailed to shareholders of Publishing and Broadcasting Limited:

- Notice of Annual General Meeting
- Proxy Form

The mailing of the documents mentioned above, together with the 2006 Concise Annual Report **(Annual Report)**, commenced today. A copy of the Annual Report will be lodged separately with the Exchange.

Yours faithfully

Guy Jalland
Group General Counsel / Company Secretary

PUBLISHING AND BROADCASTING LIMITED
ABN 52 009 071 167

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting (**AGM**) of the members of Publishing and Broadcasting Limited (**Company** or **PBL**) will be held at 11.00am on Thursday, 26 October 2006 at the Grand Ballroom, Sheraton on the Park, Level 2, 161 Elizabeth Street, Sydney. Shareholders are invited to attend and participate at this meeting to canvass relevant issues of interest. If you are unable to attend the AGM, you are invited to vote by proxy on the resolutions to be considered at the meeting.

BUSINESS

1. Financial Statements and Reports

To receive and consider the consolidated financial statements of the Company and its controlled entities, and the reports of the Directors and Auditor for the financial year ended 30 June 2006.

2. Election of Directors

To consider and, if thought fit, pass the following as ordinary resolutions:

(a) That Mr Christopher Corrigan, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company.

(b) That Mr Geoffrey Dixon, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company.

(c) That Mr Michael Johnston, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company.

(d) That Mr David Lowy, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company.

(e) That Mr Christoper Mackay, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company.

(f) That Mr Rowen Craigie retires by rotation in accordance with clause 6.1(f) of the Company's Constitution and, being eligible, is re-elected as a director.

(g) That Mr Richard Turner retires by rotation in accordance with clause 6.1(f) of the Company's Constitution and, being eligible, is re-elected as a director.

3. Issue of Shares to Executive Directors

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

(a) That for the purposes of ASX Listing Rule 10.14, approval be given to the acquisition of 300,000 ordinary shares in the Company by Mr Christopher Anderson under and in accordance with the PBL Executive Share Plan.

(b) That for the purposes of ASX Listing Rule 10.14, approval be given to the acquisition of 1,300,000 ordinary shares in the Company by Mr John Alexander under and in accordance with the PBL Executive Share Plan.

(c) That for the purposes of ASX Listing Rule 10.14, approval be given to the acquisition of 850,000 ordinary shares in the Company by Mr Rowen Craigie under and in accordance with the PBL Executive Share Plan.

4. Remuneration Report

To consider and, if thought fit, pass the following resolution as an ordinary resolution:
That the Remuneration Report for the year ended 30 June 2006 be adopted.

5. Approval for Issue of Shares to a Related Party

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:
That for the purposes of ASX Listing Rule 10.11, PBL approves the issue of 5,400,000 fully paid ordinary shares in the capital of PBL to Ancarac Pty Limited ABN 80 055 253 891, a company controlled by Mr James Packer, a director of PBL, on the terms set out in this notice and explanatory statement.

By order of the Board

Guy Jalland
Group General Counsel/Company Secretary
25 September 2006

VOTING EXCLUSION STATEMENTS

The Company will disregard any votes cast on Resolutions 3(a) to 3(c):

(a) by Mr Christopher Anderson, Mr John Alexander and Mr Rowen Craigie, being the only directors of the Company who are eligible to participate in any employee incentive scheme in relation to the Company, and

(b) any of their associates.

In addition, the Company will disregard any votes cast on Resolution 5 by Ancarac Pty Limited and its associates.

However, the Company will not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or

(b) it is cast by the Chairman of the Meeting as proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

EXPLANATORY STATEMENT TO NOTICE OF ANNUAL GENERAL MEETING

FINANCIAL STATEMENTS AND REPORTS

The *Corporations Act 2001* (Cth) (**Corporations Act**) requires the financial report (which includes the financial statements and directors' declaration), the directors' report and the auditor's report to be laid before the AGM. There is no requirement either in the Corporations Act or in the Constitution of the Company for shareholders to approve the financial report, the directors' report or the auditor's report. Shareholders will have a reasonable opportunity at the meeting to ask questions and make comments on these reports and on the business and operations of the Company.

PROPOSED ISSUE OF SHARES TO EXECUTIVE DIRECTORS

Introduction

The Company established the Executive Share Plan (**ESP**) with shareholder approval at the 1994 Annual General Meeting. The primary objective of the ESP is to assist in the recruitment, reward, retention and motivation of executive and management employees of the Company and its subsidiaries.

The issue of shares under the ESP was suspended for a short period of time after 18 May 2003. In February this year, the Company decided to reactivate the ESP. This was disclosed to the ASX when the Company published its financial report for the half year to 31 December 2005. Since February 2006, the Company has issued a total of 6,785,000 ESP shares to 61 executives of the PBL Group.

Under ASX Listing Rule 10.14 a director of the Company may only participate in the acquisition of ESP shares where that participation has been approved by ordinary resolution of the Company at a general meeting. An ordinary resolution requires at least a majority of votes that are cast on the resolution to be in favour of the resolution.

The proposed issue of the ESP shares to Directors is in accordance with the terms of the ESP. A summary of the ESP is contained in the Remuneration Report section of the 2006 PBL Annual Report (see page 67). Release of the ESP shares from the restrictions imposed by the ESP is also subject to an additional hurdle, which will be met if the PBL share price has grown by at least 7% per annum compound, measured against the issue price of the ESP shares. This hurdle will be reduced by the amount of any cash distributions or special dividends other than final or interim dividends and, if necessary, adjusted to take account of any share capital re-organisation. If the share price hurdle is not exceeded on the relevant anniversary date, but is exceeded on a subsequent anniversary date, the ESP shares will be released on the later date.

Under the terms of the ESP, PBL will make a loan to each Director to fund the issue price of the ESP shares. Key terms of the loan are as follows:

- the loan is fully repayable after 5 years, or earlier, upon cessation of employment of the executive. The loan is a limited recourse loan as the liability of the executive to repay the loan is limited to the market value of the ESP shares from time to time;
- the interest payable on the loan is equal to the dividends received on the relevant ESP shares from time to time;
- if an executive sells ESP shares which are no longer subject to limitations under the ESP before the expiry of the 5 year loan term, the executive must apply the sale proceeds towards repayment of the loan made in respect of those shares. Until the loan is completely repaid, PBL will be entitled to apply a holding lock on the relevant ESP shares; and
- if an executive defaults in any obligation to make repayment of the loan or breaches any other term or condition of the loan, PBL may sell the ESP shares and apply the sale proceeds towards satisfaction of the loan amount.

The issue price for each tranche of ESP shares was calculated in accordance with the ESP Rules, using the volume weighted average price of PBL ordinary shares traded on the ASX over the 5 business days to the date of the agreement to allot the ESP shares.

The issue of ESP shares is financially more efficient for both the Company and the executive than the payment of cash based incentives, thereby providing greater incentive for long term performance by the executive.

There are three allotments of shares to directors for which approval of shareholders is sought:

1 Resolution 3(a) - 300,000 ESP shares allotted to Mr Christopher Anderson on 23 February 2006

On 23 February 2006 the Company agreed to allot 300,000 ESP shares to Mr Anderson at an issue price of $16.16 per ESP share. These shares form part of a long term incentive put in place with Mr Anderson recognising his executive role with PBL. The Company's agreement to allot these shares (subject to shareholder approval) was disclosed to the ASX on 21 March 2006.

This resolution seeks approval for that acquisition of ESP shares by Mr Anderson.

2 Resolution 3(b) - 1,300,000 ESP shares allotted to Mr John Alexander (300,000 ESP shares on 23 February 2006 and 1,000,000 ESP shares on 30 August 2006)

On 23 February 2006 the Company agreed to allot 300,000 ESP shares to Mr Alexander at an issue price of $16.16 per ESP share. These shares form part of a further long term incentive put in place to reward Mr Alexander for his leadership of PBL. The Company's agreement to allot these shares (subject to shareholder approval) was disclosed to the ASX on 21 March 2006.

Mr Alexander's employment terms were advised to the ASX on 21 January 2005 and have been fully set out in the Remuneration Reports in the 2005 PBL Annual Report and the 2006 PBL Annual Report (see page 70).

Mr Alexander's long term incentive comprises a deferred cash bonus based on the gain on a notional holding of 1,000,000 PBL shares issued at a price of $12.52. Subject to shareholder approval, on 30 August 2006 the Company agreed to allot 1,000,000 ESP shares to Mr Alexander at a price of $17.82 partly in substitution for the deferred cash bonus arrangement.

This resolution seeks approval for the acquisition of both allotments of ESP shares by Mr Alexander.

Additionally, though not requiring shareholder approval, the current value of Mr Alexander's deferred cash benefit would be crystallised at $5,300,000 and this amount would be paid to Mr Alexander on 9 June 2007, being the third anniversary of his participation in the deferred bonus arrangement.

3 Resolution 3(c) - 850,000 ESP shares allotted to Mr Rowen Craigie (350,000 ESP shares on 23 February 2006 and 500,000 ESP shares on 30 August 2006)

On 23 February 2006 the Company agreed to allot 350,000 ESP shares to Mr Craigie at an issue price of $16.16 per ESP share. These shares form part of a further long term incentive put in place to reward Mr Craigie for his leadership of the PBL Gaming Division. The Company's agreement to allot these shares (subject to shareholder approval) was disclosed to the ASX on 21 March 2006.

Mr Craigie's employment terms have been fully set out in the Remuneration Reports in the 2005 PBL Annual Report and the 2006 PBL Annual Report (see page 70).

Part of Mr Craigie's long term incentive comprises a deferred cash bonus based on the gain on a notional holding of 500,000 PBL shares issued at a price of $14.87. Subject to shareholder approval, on 30 August 2006 the Company agreed to allot 500,000 ESP shares to Mr Craigie at a price of $17.82 partly in substitution for the deferred cash bonus arrangement.

This resolution seeks approval for the acquisition of both allotments of ESP shares by Mr Craigie.

The existing value of Mr Craigie's deferred cash bonus, given the proposed replacement by the issue of 500,000 ESP shares at $17.82 per share, is $1,475,000 which reflects part of the value which has accrued under the deferred bonus arrangement to date. It is proposed the amount of $1,475,000 be crystallised, and be paid to Mr Craigie on 1 July 2008, being the third anniversary of his participation in the deferred bonus. This payment does not require shareholder approval.

Additional Information required by the ASX Listing Rules

- The maximum number of ESP shares that can be acquired under resolutions 3(a) to 3(c) is 2,450,000 ESP shares.
- The issue price for each ESP share will be $16.16 in respect of the 950,000 ESP shares which were allotted on 23 February 2006 (to Messrs Anderson, Alexander and Craigie) and $17.82 in respect of the 1,500,000 ESP shares which were allotted on 30 August 2006 (to Messrs Alexander and Craigie) to replace their entitlements to deferred cash bonuses.
- Since the last approval was given by PBL Shareholders on 31 October 2001 for the issue of ESP shares, no directors or associates of directors have received ESP shares.
- Mr Anderson, Mr Alexander and Mr Craigie are the only directors of PBL who are entitled at this time to participate in the ESP.
- The ESP shares will be issued within one month of the passing of resolutions 3(a) to 3(c).

Recommendation

All directors, with the exception of Messrs Anderson, Alexander and Craigie, recommend that shareholders vote in favour of resolutions 3(a) to 3(c). Messrs Anderson, Alexander and Craigie make no recommendation in relation to those resolutions as they have a personal interest in the outcome of those resolutions

REMUNERATION REPORT

The Directors' Report for the year ended 30 June 2006 contains a Remuneration Report which sets out the policy for the remuneration of the directors of the Company and specified executives of the Company and the PBL Group.

The Corporations Act requires that a resolution be put to the vote that the Remuneration Report be adopted. The Corporations Act expressly provides that the vote is advisory only and does not bind the directors or the Company.

Shareholders attending the AGM will be given a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.

APPROVAL FOR ISSUE OF SHARES TO A RELATED PARTY

Introduction

The Board is proposing, subject to shareholder approval, to issue 5,400,000 fully paid ordinary shares to Ancarac Pty Limited ABN 80 055 253 891 (**Ancarac**), a company controlled by Mr James Packer, as consideration for the sale of part of Ancarac's interest in Aspinall Investments Holdings Limited, a company registered in the British Virgin Islands (**Aspinalls**) to PBL.

Mr Michael Johnston is a director of Ancarac, but has no interest in the ownership of it. Mr Packer and Mr Johnston have not participated in board discussions or decisions relating to this acquisition. Mr Ashok Jacob also disqualified himself from participating in board discussions or decisions on the grounds that he may have a conflict of interest.

Description of the Acquisition

Aspinalls currently operates casinos in London and Newcastle, with a third casino to be opened in May 2007 in Swansea, all in the United Kingdom. It is also pursuing a number of potential casino developments in other regional cities in the United Kingdom.

PBL is acquiring 46% of Aspinalls from Ancarac, and PBL will have a put and call option to acquire a further 4% from an unrelated vendor for £1.5 million. Following completion of the acquisition from Ancarac, and once the option is exercised, PBL will hold a 50% interest in Aspinalls. After some unrelated transactions, the other remaining shareholder in Aspinalls will be Mr Damian Aspinall. As PBL's local partner in this joint venture, PBL will have the benefit of Mr Aspinall's substantial knowledge of the casino market in the United Kingdom and ability to undertake the necessary negotiations to build and operate casinos in that market.

This acquisition is complementary to the other gaming interests which PBL holds and will give a greater geographic diversity to PBL's gaming interests. However, due to the size of the acquisition and its likely contribution to PBL's earnings in the immediate future, it is not considered to be a material transaction for the Company.

PBL has entered into agreements with Ancarac and subject to shareholder approval, is obliged to settle the purchase by the issue of 5,400,000 PBL shares. If shareholders do not approve the issue of shares to Ancarac, PBL will pay Ancarac £36.7 million (which equates to approximately A$91.8 million) in cash to complete the acquisition of this interest in Aspinalls.

Effect on Mr James Packer's interests

The 5,400,000 shares to be issued, if this resolution is passed, will equate to approximately 0.79% of PBL's expanded issued capital, after the share issues for which approval is sought at this meeting. As a result, Mr James Packer's interest in shares in PBL will increase from 38.20% to 38.44%.

Other Information

For the purposes of Listing Rule 10.13, PBL provides the following information.

- The shares will be issued to Ancarac;
- The number of shares to be issued is 5,400,000;
- The shares will be issued to Ancarac within one month after shareholders approve the issue;
- Ancarac is a company which is ultimately controlled by Mr Packer, a director of PBL. Mr Packer and Mr Johnston are directors of Ancarac. As such, Ancarac is a related party of PBL;
- The shares are being issued as payment for the acquisition of Ancarac's interest in Apinalls, for £36.7 million (which equates to approximately A$91.8 million). The deemed issue price is A$17.00 per share, reflecting the trading price of PBL shares at the time that negotiations were being undertaken. The shares will be fully paid ordinary shares and will have the same rights in relation to voting and dividends as all other ordinary shares issued by PBL.
- No funds will be raised from the issue of shares. However, PBL will acquire part of Ancarac's interest in Aspinalls, which will provide PBL with opportunities for growth in the United Kingdom casino market.

Recommendation

Mr Packer, Mr Johnston and Mr Jacob do not make a recommendation in relation to this resolution, as they have conflicts of interest as disclosed above. The remaining members of the Board consider that the acquisition of Ancarac's interest in Aspinalls, for the issue of 5,400,000 million shares in PBL is on arms length terms and recommend that shareholders vote in favour of this resolution.

PROXY FORM

If you are attending the AGM, please bring the proxy form with you as the details on it will assist attendance registration. If you are unable to attend the meeting, you may appoint a proxy to vote for you at the meeting using the proxy form attached. Please have the proxy form completed and returned to the Company's Share Registry in the reply paid envelope provided to reach the Share Registry not later than 11.00am on 24 October 2006.

VOTING

A member entitled to attend and vote may appoint up to two proxies. Where a member appoints two proxies and the appointment does not specify the number or proportion of the member's votes each proxy may exercise, each proxy may exercise half of the votes. A proxy need not be a shareholder.

On a show of hands, every member present in person or by proxy or by attorney or, in the case of a corporation, by duly appointed representative, shall have one vote and on a poll one vote for every share held provided that if a member appoints two proxies or two attorneys, neither proxy nor attorney shall be entitled to vote on a show of hands.

ENTITLEMENT TO VOTE

In accordance with section 1074E(2)(g)(i) of the Corporations Act and regulation 7.11.37 of the *Corporations Regulations*, the Company has determined that for the purposes of the meeting all ordinary shares in the Company shall be taken to be held by the persons who held them as registered shareholders 48 hours before the time for holding the meeting (**Entitlement Time**). All holders of ordinary shares in the Company as at the Entitlement Time are entitled to attend and vote at the meeting outlined above.

PUBLISHING AND BROADCASTING LIMITED
ABN 52 009 071 167

PROXY FORM

1. Registered Name and Address

(mark this box with an "X" if you have made any changes to your name or address details - see reverse) ☐

2. Appointment of Proxy

I/We being a member/members of Publishing and Broadcasting Limited hereby appoint

☐ the Chairman of the Meeting (mark with an "X") **or** _____ Name of the person you are appointing (if not the Chairman of the Meeting)

or failing such appointment, or in the absence of that person, the Chairman of the Meeting as my/our proxy to vote in accordance with the following directions (or, if no directions have been given, as the proxy sees fit) at the Annual General Meeting of the Company to be held at 11.00am on Thursday, 26 October 2006 and at any adjournment of that Meeting.

☐ The Chairman of the Meeting intends to vote undirected proxies in favour of each resolution.
IMPORTANT: To ensure your proxy votes count for resolution 5, you should mark this box. By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy votes even if he has an interest in the outcome of any resolution, and that votes cast by him, other than as a proxyholder, will be disregarded because of those interests. If you do not mark this box and you have not directed your proxy how to vote, the Chairman will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

3. Vote on Resolutions (please mark with an "X" as appropriate)

	FOR	AGAINST	ABSTAIN
2(a) To elect Mr Christopher Corrigan as a Director	☐	☐	☐
2(b) To elect Mr Geoffrey Dixon as a Director	☐	☐	☐
2(c) To elect Mr Michael Johnston as a Director	☐	☐	☐
2(d) To elect Mr David Lowy as a Director	☐	☐	☐
2(e) To elect Mr Christopher Mackay as a Director	☐	☐	☐
2(f) To re-elect Mr Rowen Craigie as a Director	☐	☐	☐
2(g) To re-elect Mr Richard Turner as a Director	☐	☐	☐
3(a) To issue shares to Mr Christopher Anderson	☐	☐	☐
3(b) To issue shares to Mr John Alexander	☐	☐	☐
3(c) To issue shares to Mr Rowen Craigie	☐	☐	☐
4 To adopt the Remuneration Report	☐	☐	☐
5 To issue shares to a related party	☐	☐	☐

4. If Appointing a Second Proxy (please refer to instructions on reverse)

☐ Mark this box with an "X" if appointing a second proxy **and** ☐ % Indicate the percentage of your voting shares or the number of shares for this proxy form **or** _____ Number of shares

5. Signature(s) of Shareholder(s) (please refer to instructions on reverse)

Individual or Shareholder 1	Shareholder 2	Shareholder 3
Individual/Sole Director and Sole Company Secretary	Director	Director/Company Secretary

..... Contact Name

..... Daytime Contact Telephone

..... / ..... / 2006 Date

please turn over

INSTRUCTIONS FOR COMPLETION OF PROXY FORM

For your proxy to be entitled to vote your shares at the Annual General Meeting, the completed proxy form must be lodged at the Company's Share Registry, Computershare Investor Services Pty Limited ("Computershare Investor Services"), not later than 48 hours before the commencement of the meeting. Any proxy form received after that time will be treated as invalid.

1. Registered Name and Address

This is the name and address of the shareholder as it appears on the Company's share register. If this information is incorrect, please mark the box and make the correction on the form. Shareholders sponsored by a broker should advise their broker directly of any changes.

2. Appointment of Proxy

Insert the name of your proxy. If you leave this section blank, the Chairman of the Meeting will be your proxy to vote your shares. A proxy need not be a shareholder of the Company.

3. Vote on Resolutions

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each of the resolutions. If you do so, all your shares will be voted in accordance with your directions. You can split your vote on any resolution by inserting the percentage or number of shares you wish to vote in the appropriate boxes. If you do not mark any of the boxes for a resolution, your proxy may vote as she or he sees fit.

4. If Appointing a Second Proxy

If you wish to appoint a second proxy, an additional proxy form may be obtained from Computershare Investor Services by telephoning 1300 855 080 or you may copy this form.

To appoint a second proxy, you must:

- complete the first proxy form by stating the number of shares or the percentage of your shares applicable to the first proxy,
- complete the second proxy form by stating the number of shares or the percentage of your shares applicable to the second proxy,
- return both forms in the same envelope.

Please note that if you appoint two proxies, neither proxy may vote on a show of hands.

5. Signature(s)

Each shareholder must sign this form. If your shares are held in joint names, all shareholders must sign in the boxes. If you are signing as an attorney, then the power of attorney must have been noted by Computershare Investor Services or a certified copy of it must accompany this form.

Only duly authorised officer(s) may sign on behalf of a company. A director may sign jointly with another director or a company secretary. A sole director who is also the sole company secretary may also sign. Please indicate the office held by signing in the appropriate box.

Lodgement of Proxy

A proxy form (and any power of attorney under which it is signed) must be lodged no later than 11.00am, 24 October 2006. Any proxy form lodged after that time will be treated as invalid.

Documents May be Lodged with Computershare Investor Services:

- by mail to Computershare Investor Services, GPO Box 242, Melbourne VIC 8060 using the enclosed reply paid envelope; or
- by delivery to Level 3, 60 Carrington Street, Sydney; or
- by fax to fax number (+61 3) 9473 2118.

ASX / MEDIA RELEASE
FOR IMMEDIATE RELEASE **26 October 2006**

RESULTS OF RESOLUTIONS AND PROXY VOTES
ANNUAL GENERAL MEETING 2006 – 26 OCTOBER 2006

In accordance with Listing Rule 3.13.2 and Section 251AA(2) of the *Corporations Act*, Publishing and Broadcasting Limited ("PBL") today announced that all resolutions as detailed in its Notice of Annual General Meeting ("AGM") to shareholders dated 25 September 2006 were passed by shareholders on show of hands at PBL's AGM held today. The details are:

Resolution 2(a):	"That Mr Christopher Corrigan, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company"
Resolution 2(b):	"That Mr Geoffrey Dixon, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company."
Resolution 2(c):	"That Mr Michael Johnston, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company."
Resolution 2(d):	"That Mr David Lowy, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company."
Resolution 2(e):	"That Mr Christopher Mackay, a director appointed since the last annual general meeting, retires in accordance with clause 6.1(e) of the Company's Constitution, and being eligible, is elected as a director of the Company."
Resolution 2(f):	"That Mr Rowen Craigie retires by rotation in accordance with clause 6.1(f) of the Company's Constitution and, being eligible, is re-elected as a director."
Resolution 2(g):	"That Mr Richard Turner retires by rotation in accordance with clause 6.1(f) of the Company's Constitution and, being eligible, is re-elected as a director."
Resolution 3(a):	"That for the purposes of ASX Listing Rule 10.14, approval be given to the acquisition of 300,000 ordinary shares in the Company by Mr Christopher Anderson under and in accordance with the PBL Executive Share Plan."
Resolution 3(b):	"That for the purposes of ASX Listing Rule 10.14, approval be given to the acquisition of 1,300,000 ordinary shares in the Company by Mr John Alexancer under and in accordance with the PBL Executive Share Plan."
Resolution 3(c):	"That for the purposes of ASX Listing Rule 10.14, approval be given to the acquisition of 850,000 ordinary shares in the Company by Mr Rowen Craigie under and in accordance with the PBL Executive Share Plan."
Resolution 4:	"That the Remuneration Report for the year ended 30 June 2006 be adopted."

Resolution 5:	”That for the purposes of ASX Listing Rule 10.11, PBL approves the issue of 5,400,000 fully paid ordinary shares in the capital of PBL to Ancarac Pty Limited ABN 80 055 253 891, a company controlled by Mr James Packer, a director of PBL, on the terms set out in this notice and explanatory statement.”

The valid proxy votes received by PBL for the resolutions at the close for receiving proxies at 11am, Tuesday 24 October 2006 were:

Resolution	For	Against	Open	Abstain
2(a)	495,748,557	258,822	3,321,246	117,742
2(b)	477,585,386	9,208,623	3,318,673	8,333,685
2(c)	486,729,509	9,224,117	3,343,637	167,274
2(d)	494,771,493	214,967	3,321,885	1,137,950
2(e)	495,772,397	169,568	3,349,927	154,475
2(f)	491,023,247	4,937,851	3,338,443	164,996
2(g)	495,085,400	1,306,148	2,906,899	147,920
3(a)	468,120,067	27,843,043	2,791,234	265,799
3(b)	470,115,974	25,849,827	2,783,399	269,067
3(c)	470,138,564	25,822,515	2,788,822	270,366
4	470,596,367	16,488,596	2,830,040	8,530,064
5	235,977,751	7,744,983	2,031,100	757,451

ENDS

COPIES OF RELEASES

Copies of previous media and ASX announcements issued by PBL are available at PBL’s website at www.pbl.com.au. After accessing the site, click on “Investor Info” on the menu on the left hand side of the home page and then on “Media & ASX Releases.”

Remuneration Report

Contents

Section 1. Board Human Resources Committee

The Human Resources Committee assists the Board to ensure the Company establishes remuneration strategies and policies aligned with best practice, and that:

- attract and retain high calibre executives and Directors and continually motivate them to pursue the long-term growth and success of the Company;
- are consistent with the needs of the Company; and
- demonstrate a clear relationship between executive performance and remuneration.

Section 2. Non-executive Directors' remuneration

Non-executive Directors are remunerated by way of fees in the form of cash, superannuation and equity, in accordance with Recommendation 9.3 of the ASX Corporate Governance Principles. In addition, they receive an allowance for Foster's products including beer, wine and other Foster's beverages.

Non-executive Directors do not participate in the Company's incentive plans and, from 1 January 2005, do not receive retirement benefits other than the superannuation contributions disclosed in this report.

Non-executive Directors' fee structure

The Board determines fees payable to non-executive Directors, taking into consideration advice from external consultants. The fees are consistent with those paid to non-executive Directors in comparable companies, while remaining within the fee limit of $1,500,000, approved by shareholders at the Annual General Meeting on 24 October 2005.

Non-executive Directors elect how they wish to receive their total fees – a combination of cash, superannuation contributions and shares – subject to meeting statutory superannuation requirements. Superannuation contributions are made into the Foster's Group Superannuation Fund, except where a non-executive Director has elected to contribute to an alternative fund.

The following fee structure has applied to non-executive Directors since 1 January 2006:

Table 2A – Non-executive Directors' fees [1]

Chairman:	$360,000	
Non-executive Director:	$120,000	
Audit Committee:	Chair: $30,000	Member: $18,000
Risk & Compliance Committee:	Chair: $15,000	Member: $12,000
Human Resources Committee:	Chair: $15,000	Member: $12,000 [2]
Succession Committee:	Chair: $9,000 [2]	Member: $6,000

[1] Board fees are not paid to executive Directors as the responsibilities of Board membership are considered in determining the remuneration provided as part of their normal employment conditions.

[2] Not paid to Frank Swan (Chairman does not receive committee fees).

Non-executive Directors' share purchases

Non-executive Directors apply at least 20 per cent of their base Board fees to purchase shares in the Company. Until March 2006, the shares were acquired using Directors' after tax remuneration, with no restrictions on the shares.

The Board has approved a new Directors' Share Purchase Plan, effective from 1 April 2006. Under this plan, a non-executive Director must use at least 20 per cent of pre-tax base Board fees to acquire shares in the Company, but may elect to use up to 100 per cent of pre-tax fees, including Committee fees. The shares are held in trust for three years following the purchase of the shares on-market, or until the Director ceases to be a Director of the Company, whichever occurs first. No shares have been purchased under these arrangements, as the funds relating to the quarter ended 30 June 2006 are being held in a trust account until shares can be acquired in accordance with the Company's Share Trading Policy.

Section 3. Executive remuneration policy and structure

Remuneration policy

Remuneration policies and practices are benchmarked to markets using information and advice from external, independent consultants. In general, the Company sets remuneration levels against major corporates (excluding resource and financial services companies) or, where there is sufficient market depth, fast moving consumer goods (FMCG) companies. For senior executives, global subsets of these markets are also used.

The Company's remuneration policy ensures that remuneration levels properly reflect the duties and responsibilities of executives. At target levels of performance, the combined elements of remuneration are generally intended to deliver around market median. For superior performance, the Company aims to deliver reward around the 75th percentile (where actual levels exceed 75 per cent of comparator companies).

The structure of remuneration (explained below) aims to support this policy. The Board considers it important that executives have ongoing share ownership in the Company, supported by participation in the Long Term Incentive Plan. In the normal course, the Board expects that over a period of five years, executives should aim to acquire Foster's shares to the value of one year's prevailing remuneration (one and a half years in the case of the Chief Executive Officer). A resolution to approve a new share plan (the Employee Share Acquisition Plan) will be put to shareholders at the Annual General Meeting on 23 October 2006. This plan will provide greater flexibility for executives to achieve these shareholding guidelines. More information regarding the proposed plan is contained on page 20 of this report and in the 2006 Notice of Annual General Meeting.

Remuneration structure

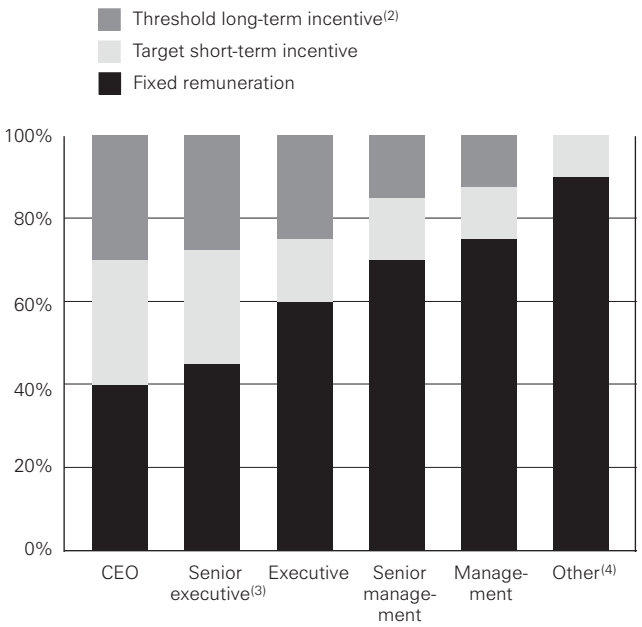
Executives' remuneration is composed of the following elements:

- Fixed remuneration – including salary, non-monetary benefits and superannuation;
- Short-term incentives; and
- Long-term incentives.

A detailed description of each of these elements is provided below.

Remuneration packages are structured to ensure a significant part of an executive's reward depends on achieving business objectives and generating returns for shareholders. Accordingly, the proportion of remuneration that is at risk (being the short- and long-term incentive elements) increases for more senior positions. The structure and relative proportion of each element is held as consistent as practicable on a global basis, with exceptions made to cater to markets where practice places greater emphasis on certain elements. The following chart shows how remuneration is structured for executives and salaried employees:

Chart 3.1 Remuneration structure by level[1]



[1] Amounts shown reflect typical weightings only, as some variations in regional remuneration structures exist.

[2] Threshold long-term incentive opportunity reflects the market value, as determined at the time of offer, of shares offered for achieving median performance.

[3] Senior executives comprise all continuing Key Management Personnel excluding Directors.

[4] Other employees include Australian, non-management salaried employees and equivalents in other countries. Short-term incentive payment opportunities may differ slightly by country.

Details of the proportion of actual remuneration that was at risk for the Chief Executive Officer and nominated executives (being those executives whose remuneration arrangements are disclosed in accordance with AASB 124 'Related Party Disclosures' and the Corporations Act 2001) are shown in Section 6B.

Fixed remuneration

Executives' fixed remuneration is either on a total remuneration basis (Australia) or, for those executives whose home country is not Australia, a base salary basis, where additional benefits are provided.

Australian executives

Fixed remuneration refers to total remuneration and includes any benefits that the executive has nominated to receive as part of his or her package. These may include motor vehicle leases, car parking, and any additional superannuation contributions beyond that required by the Company. The balance comprises a cash salary and mandatory superannuation contributions (the amount of which may vary depending on the section of the Foster's Group Superannuation Fund in which the executive participates).

Executives may also receive non-monetary benefits in addition to their stated total remuneration. These may include car parking, product allocations (such as wine, beer or other Foster's beverages), event tickets, other miscellaneous benefits, and Fringe Benefits Tax associated with such benefits.

Non-Australian executives

Fixed remuneration structures differ slightly depending on the country of origin, but outside Australia the typical practice is to have a base salary plus a number of benefits consistent with market competitive practice. References to fixed remuneration in this report refer only to the base salary component in relation to non-Australian employees.

The level of fixed remuneration is generally set by reference to the market median and is determined by the scope of the role and the level of knowledge, skill and experience required of the individual.

Fixed remuneration is reviewed annually to reflect each executive's performance over the previous year, as assessed through the Company's Individual Performance Management program. This program assesses employee performance against a number of agreed key performance objectives and against five individual behaviours intended to reflect the aims of the Company's mission, vision, and values.

Short-term incentives

All executives participate in Foster's global Short Term Incentive Plan (STIP). The objective is to encourage executives to meet their own individual performance targets, while also supporting the broader business objectives.

Under the plan, each participant has a target opportunity, set as a percentage of fixed remuneration, which is typically 60 per cent for senior executives (75 per cent for the Chief Executive Officer). Targets at all levels are set on the basis of independent external market data to ensure the target performance will be rewarded with around market median remuneration. Actual payments are determined by:

1. Business financial performance, based on key business measures (explained over the page); and
2. Individual performance, based on the Company's Individual Performance Management program.

Remuneration Report continued

Measuring business performance
The measures used to assess business performance may vary each year depending on business objectives. Current arrangements use an 'Earnings' measure, a 'Cash flow' measure and a 'Return' measure, and are explained below. These measures replaced economic profit, after a review in 2005 found economic profit was a difficult measure for employees to understand.

- Earnings is measured by Earnings Before Interest and Tax (EBIT) for the year ended 30 June 2006 at both business and Group level, depending on the participant. For the coming year, earnings per share (EPS) will be used to align the plan more closely with the Company's objectives. Both metrics are widely understood within the Company and measure operating profit that includes both cash and non-cash items.
- Cash flow is measured using Controllable Cashflow (CCF). CCF measures the cash flow available after meeting all working capital and capital expenditure needs, and ensures STIP payments are linked to the generation of cash through operating activities and the efficient management of working capital.
- Return is measured by return on capital employed (ROCE). This measure encourages different businesses to work together to produce the best overall returns for Foster's shareholders and to ensure profits are achieved through the efficient utilisation of available capital resources. For senior executives in the year ended 30 June 2006, ROCE was also measured for the Group-wide Wine activities.

In order to simplify the operation of the plan in the year ending 30 June 2007, only one earnings measure and one cash flow measure will be used. Accordingly, ROCE will not be directly measured under the plan.

The Board relies on audited annual results to declare all short-term incentive plan payments.

Long-term incentives
The Foster's Long Term Incentive Plan (LTIP) is designed to reward executives for delivering long-term shareholder returns. The plan was last approved by shareholders in 2003 and will be re-presented to shareholders for approval in 2006. Under the plan, participants may be entitled to newly issued ordinary shares in the Company if certain performance standards are met (and subject to continued employment).

Participation is at the Board's discretion, and no individual has a contractual right to participate in the plan or to receive any guaranteed benefit under the plan.

LTIP performance standard
The performance standard is measured by Total Shareholder Return (TSR), relative to a number of peer companies, measured over a three-year performance period. Relative TSR performance was chosen as the most effective way to measure and reward the extent to which shareholder returns are generated relative to the performance of those companies with which the Company competes for capital, customers and executive talent. Regular reporting to LTIP participants on total shareholder returns and peer group performance is used to ensure attention is given to the ongoing level of shareholder return.

For offers made prior to 2005, if median performance is not achieved at the end of the initial three-year performance period, the Board has discretion to extend the performance period by up to two years. For existing offers that are extended, the performance standard will be measured for up to two years, until such time that median performance is exceeded for three consecutive months. Only half the maximum number of shares under a participant's entitlement may then be distributed. In the event that median performance is not met during three consecutive months during the extension period, no shares will be allocated under the LTIP.

In 2005, the Human Resources Committee reviewed the plan and, considering emerging best practice, resolved that performance will continue to be measured over a three-year period, however, such extensions would not be granted for any offers made from 2005 onwards.

For offers made prior to 2006, there has been one peer group that has generally comprised the following:

- the top 20 to 30 companies by market capitalisation, listed on the ASX, excluding resource companies and foreign domiciled companies;
- twenty other companies listed on the ASX in the same industry sector as Foster's; and
- ten international companies in the same industry sector as Foster's.

The international companies have been included since the 2002 offer, and finance sector companies have been included since the 2004 offer.

Full lists of the peer groups used are available on request.

For the 2006 offer, the peer group has been selected on similar principles, but will be split into two. Foster's performance will be measured against Australian companies, independently of performance against international alcoholic beverage companies. This change ensures the plan cannot fully vest if Foster's has outperformed all the Australian-based companies, while not performing adequately against the international peers, and vice versa.

This change increases participants' focus on performance relative to international peers, thereby increasing the relevance of the plan to international participants and aligning the plan more closely with the Company's objective of becoming a leading international beverage company.

For the 2006 offer, the peer groups will comprise the companies listed opposite:

Table 3A – Peer Group 1 – Australian companies

ABC Learning Centres	Macquarie Communications Infrastructure Group
Amcor	Macquarie Goodman Group
AMP	Macquarie Infrastructure Group
ANZ Banking Group	Metcash
APN News and Media	National Australia Bank
Aristocrat Leisure	Pacific Brands
Austar United Communications	Publishing and Broadcasting
Australian Gas Light Company	Qantas Airways
AWB	QBE Insurance Group
AXA Asia Pacific Holdings	Rinker Group
Billabong International	Rural Press
Brambles Industries	Seven Network
Burns, Philp and Company	St George Bank
Coca-Cola Amatil	Stockland
Coles Myer	Suncorp-Metway
Commonwealth Bank of Australia	Tabcorp Holdings
CSL	Tattersall's
David Jones	Telstra Corporation
Futuris Corporation	Ten Network Holdings
Goodman Fielder	Wesfarmers
GPT Group	West Australian Newspapers
Harvey Norman	Westfield Group
Insurance Australia Group	Westpac Banking Corporation
John Fairfax Holdings	Woolworths
Macquarie Bank	

Table 3B – Peer Group 2 – International alcoholic beverage companies

Anheuser-Busch	Lion Nathan
Brown-Forman	Molson Coors
Constellation Brands	Pernod-Ricard
Diageo	SABMiller
Heineken	Scottish and Newcastle
InBev	

Each peer group is equally weighted in determining the number of shares to be allocated (i.e. half a participant's opportunity depends on performance against each of the peer groups). The number of shares that a participant may receive will depend on Foster's ranking against the two peer groups at the end of the performance period.

Allocations under each peer group are independent of each other. For each allocation:

- where Foster's is ranked below the median, no opportunity relating to that peer group is allocated;
- where Foster's is ranked at the median, 50 per cent of the participant's maximum opportunity relating to that peer group is allocated;
- where Foster's is ranked at or above the 85th percentile, 100 per cent of the participant's maximum opportunity relating to that peer group is allocated;
- where Foster's is ranked between the median and 85th percentile, a proportion between 50 per cent and 100 per cent of the participant's maximum opportunity relating to that peer group is allocated.

Any shares allocated under the LTIP are held in trust and may be forfeited if the employee is terminated for cause. Participants may elect to have the shares transferred to them within 10 years of the shares being allocated.

The value of an individual's LTIP opportunity is determined at the time of offer, and is set as a percentage of a participant's fixed remuneration depending on their role. The number of shares in an individual's LTIP opportunity is based on the three-month average share price up to and including the start of the initial three-year performance period. The Board relies on audited procedures using data from external providers to reach any decision regarding the distribution of shares under the LTIP.

Operation of LTIP
Participation in the LTIP is governed by Company policy and the plan trust deed in Australia and plan rules in other countries. There are no restrictions on the transfer of shares under the LTIP once they vest to participants, other than for phantom deferred shares (explained below), which may only be released when employment ceases.

Participants who cease employment before the conclusion of a performance period are no longer eligible to receive shares, but subject to Board discretion, may receive a cash payment in lieu, in cases of retirement, redundancy, ill health, death, or where the participant's employer ceases to be a Foster's Group company. If there is a change in control of Foster's during the performance period, the offer may lapse and the Board has discretion to make a cash payment to a participant, on such basis as the Board determines.

Regional variations of LTIP
Foster's conducts different versions of the LTIP in a number of jurisdictions, in order to reflect the legal requirements of the various countries in which the Company operates. All versions maintain the main features of the LTIP, including the requirement that performance standards are reached over the three-year performance period in order for any shares to be allocated.

In order for the plan to operate similarly in the US as it does in Australia, tax residents of the US who are LTIP participants may elect, in advance of vesting, to allow a proportion of any vested entitlement to be granted as phantom deferred shares.

At the conclusion of the nominated deferral period (which may not be more than 10 years), the Company allots ordinary Foster's shares to participants. Dividends are not payable on phantom deferred shares, but adjustments are made to holdings to reflect the amount an equivalent holding in ordinary shares would have increased, had dividends been reinvested. Similarly, holdings in phantom deferred shares are modified to reflect any capital adjustments.

Offers due to have vested during the year
For the year ended 30 June 2006, there were no shares issued under LTIP offers. The 2002 offer's performance conditions were not met at the end of the initial three-year performance period to 31 August 2005. The Board exercised its discretion to extend the performance period by two years, whereby only half the maximum number of shares under a participant's entitlement may be distributed, subject to the Company achieving at least a median peer group TSR ranking for three consecutive months. At the date of this report, the extended 2001 offer and the extended 2002 offer remain unvested.

Anti-hedging policy
In order to ensure the variable components of the Company's remuneration structure remain at risk, employees may not hedge against the risk inherent in arrangements such as the Long Term Incentive Plan or any other share-based incentive plans. LTIP awards will lapse where this policy is breached.

Other equity plans
Foster's Employee Share Grant Plan
Most full-time or part-time permanent employees (including executives) with at least six months' service with the Company are eligible to participate in the Foster's Employee Share Grant Plan, which was approved by shareholders at the Annual General Meeting held on 25 October 2004.

Under this plan, participants receive up to $1,000 of shares in the Company, subject to Company performance and Board approval. A total of 1,062,241 shares were allocated under the plan for the year ended 30 June 2006, and a third allocation is planned for December 2006.

In some countries, a portion of these shares may be sold at the time of grant to pay for employee or employer taxes. Participants may not transfer shares until the earlier of three years after they are acquired or when employment ceases.

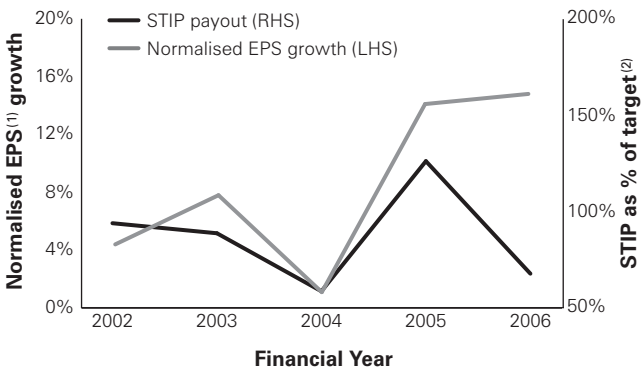
The Company conducts separate versions of the plan in the different countries in which it operates, in order to reflect local compliance requirements while preserving the plan's main features.

Proposed new share plan
Approval for a new employee share plan will be sought from shareholders at the 2006 Annual General Meeting.

The Employee Share Acquisition Plan seeks to give employees the opportunity to increase shareholdings in the Company, using funds that would otherwise have been paid to them via salary or bonus. Details of the proposed plan are included in the 2006 Notice of Annual General Meeting.

Performance of Foster's (unaudited)
Charts 3.2 and 3.3 below illustrate two of the key links between executive remuneration and Company performance. Chart 3.2 shows the link between the Company's earnings (earnings per share or EPS) and payments made to senior executives under the Short Term Incentive Plan. The link between EPS and the Company's STIP is explained on page 18.

Chart 3.2 Foster's earnings per share versus STIP payments (unaudited)

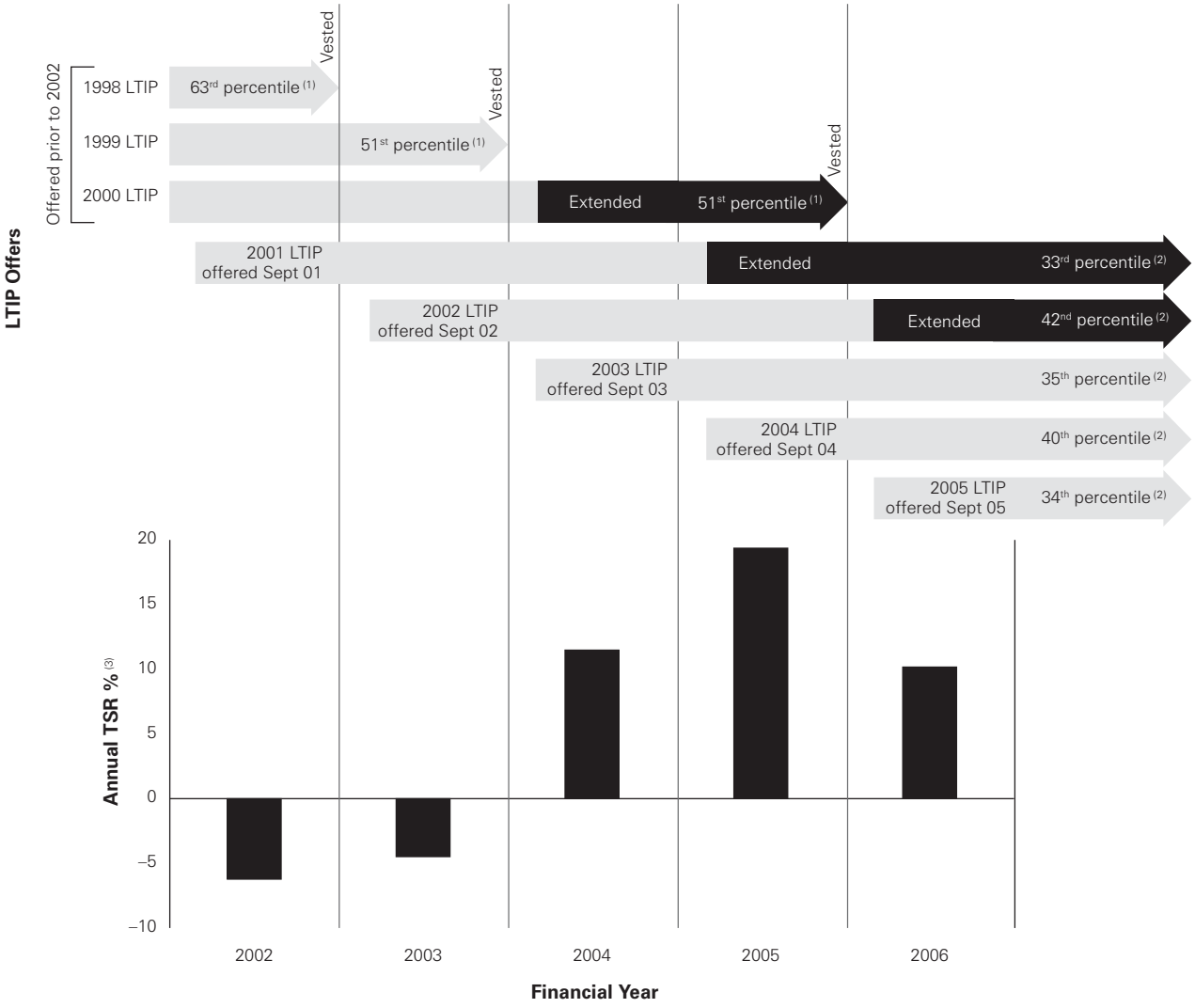


(1) Normalised continuing earnings per share, where basis of calculation up to and including 2005 is Accounting Standards prior to adoption of AIFRS (Australian equivalents to International Financial Reporting Standards). Growth in 2006 is based on AIFRS results for 2005 and 2006.

(2) Average payment made to senior executives under the Short Term Incentive Plan (STIP) as a percentage of target.

Chart 3.3 shows the performance of the Foster's LTIP over the last five years, along with the Company's annual Total Shareholder Return (TSR) for the same period. TSR incorporates share price growth, dividends and other capital adjustments. Each arrow indicates the Company's TSR percentile ranking versus the relevant offer's peer group, as measured from the offer date until the date of vesting, or 31 May 2006 (being the most recent date of measurement) in the case of offers that have not yet vested. For example, the 2000 offer vested in the year ended 30 June 2005, based on the Company's relative TSR ranking achieving the 51st percentile. Further explanation of the link between TSR and the Company's LTIP is provided on pages 18 and 19.

Chart 3.3 Foster's relative TSR performance (unaudited)



(1) Percentile versus respective peer group for the performance period commencing the offer date and ending allocation/vesting date. Vesting occurs at or above 50th percentile.

(2) Percentile versus respective peer group for the performance period commencing the offer date and ending 31 May 2006. Vesting occurs at or above 50th percentile.

(3) TSR is calculated using volume weighted average start and end prices for the months up to and including 30 June in the relevant years, in accordance with the methodology for measuring performance under the LTIP.

Review of remuneration and performance

The Board approves the remuneration levels of the Chief Executive Officer and other senior executives, taking account of advice from independent consultants, and after considering levels that apply to similar positions in comparable companies, as well as the performance of the Chief Executive Officer and senior executives.

The Chairman and the Board evaluate the Chief Executive Officer's performance. The Chief Executive Officer evaluates the performance of the senior executives, in conjunction with the Human Resources Committee, using the Company's Individual Performance Management program. The general terms and conditions of all remuneration programs are reviewed annually to ensure they continue to achieve the aims of the Company's remuneration policy.

Remuneration Report continued

Section 4. Chief Executive Officer's remuneration
The remuneration arrangements of the Chief Executive Officer, Trevor O'Hoy, are summarised below. Contractual terms, including termination benefits, are outlined in Section 5. The nature and amount of each element of remuneration are outlined in Section 6.

Trevor's remuneration arrangements are reviewed annually by the Board against the remuneration of Chief Executive Officers in similarly sized roles in both local and international peer companies. The outcomes of the 2006 review are summarised below.

Fixed remuneration
Trevor's fixed remuneration comprises cash, certain benefits that he may nominate to receive as part of his package, and superannuation. Trevor's superannuation comprises a mandatory contribution from his fixed remuneration to the Defined Benefit section of the Foster's Group Superannuation Fund. The contribution amounts to 18 per cent of the cash component of fixed remuneration and is based on an actuarial assessment of the long-term cost to the Company of funding the entitlement. The benefit that will accrue to Trevor is calculated as a percentage (his Benefit Multiple) of the cash component of his fixed remuneration averaged over the last three years of service (and subject to an age discounting factor if service ceases prior to age 55). His Benefit Multiple at 30 June 2006 is 536 per cent and relates to service with the Company from 9 February 1976. The multiple will continue to increase each year by 17.75 per cent up to a maximum of 700 per cent.

Non-monetary benefits received by Trevor include event tickets, product allocations such as wine, beer and other Foster's beverages, and an interest-free loan on shares held under the Foster's Employee Share and Option Plan (no shares were granted to Trevor under this plan during the year).

For the forthcoming year, the Board has approved an increase in Trevor's fixed remuneration to $1,650,000, effective 1 September 2006.

Short-term incentives
Trevor participates in the same Short Term Incentive Plan as other executives, as described in Section 3. His target opportunity under the plan is equal to 75 per cent of fixed remuneration. His actual payment for the year ended 30 June 2006 is based on:

1. The Group's EBIT, CCF and ROCE performance against target (as explained in Section 3)
2. An annual assessment of his performance against objectives agreed with the Board.

On the basis of the criteria outlined above, the Board has approved an STIP payment for the year ended 30 June 2006 of $761,300, representing 53 per cent of fixed remuneration (i.e. 70 per cent of target). Trevor's target STIP opportunity will remain at 75 per cent of fixed remuneration for the forthcoming year.

Long-term incentives
Trevor participates in the same LTIP as other executives, as described in Section 3. His threshold opportunity under the plan (where Foster's performance is ranked at the median of both peer groups) is equal to 75 per cent of fixed remuneration.

As an executive Director, his participation and allocation are subject to approval each year by shareholders. In 2005, shareholders approved an allocation with a threshold opportunity of 201,400 shares where Foster's performance is ranked at the median of the peer group (maximum opportunity of 402,800 shares where Foster's performance is ranked at or exceeds the 85th percentile of the peer group). The performance period for this offer began on 1 September 2005.

On the basis of the 2006 review, the Board has determined that Trevor's threshold LTIP opportunity will remain at 75 per cent of fixed remuneration for the forthcoming year. On this basis, a proposal will be put to shareholders in October 2006 for an allocation with a threshold opportunity of 227,100 shares where Foster's performance is ranked at the median of both peer groups (maximum opportunity of 454,200 shares where Foster's performance is ranked at or exceeds the 85th percentile of both peer groups). Using the share price as at 30 June 2006, the fair value of the offer is estimated to be $1,112,790. The number of shares, if any, that will be allotted under the plan will depend on the Company's Total Shareholder Return compared with the two peer groups of companies detailed in Section 3.

Other equity plans
Trevor received $1,000 worth of shares in December 2005 as part of the Foster's Employee Share Grant Plan, as described in Section 3. No other grants were made to Trevor during the year under any other employee equity plan.

As an executive Director, Trevor is also eligible to participate in the Directors' Share Purchase Plan.

Section 5. Nominated executives' contract terms
A summary of the key terms of employment contracts for nominated executives is outlined below. For executives whose home country is Australia, fixed remuneration consists of cash salary, mandatory employer superannuation contributions and packaged benefits.

All contracts for nominated executives have no fixed term.

Participation in the Short Term Incentive Plan is at the Board's discretion. The target opportunity for senior executives is typically 60 per cent of fixed remuneration (75 per cent for the Chief Executive Officer and 50 per cent for John Philips, Dan Leese and Neville Fielke).

Participation in the Long Term Incentive Plan is also at the Board's discretion. Offers to senior executives currently provide for threshold share allocations at median performance equivalent to 60 per cent of fixed remuneration (75 per cent for the Chief Executive Officer).

Participants who cease employment before the conclusion of a performance period are no longer eligible to receive shares. In the event of retirement, redundancy, death or total and permanent disablement, the Board has discretion to pay an amount in lieu of unvested LTIP offers that it considers appropriate, having regard to the time which has elapsed since the offer, the allocation schedule and the degree to which the performance standards have been achieved.

Foster's may terminate service agreements immediately for cause, in which case the executive is not entitled to any payment other than the value of fixed remuneration up to the termination date. Severance payments on termination are limited to executives' existing contractual arrangements. Details of severance payments made to nominated executives during the year are set out in Section 6.

In all cases, the executive is entitled to any accrued leave entitlements up to termination date.

Table 5A – Summary of the key terms of employment contracts for nominated executives

	Resignation	Termination by Foster's (without cause)	Redundancy	Death or total and permanent disablement
TL O'Hoy	90 days' notice.	Four weeks' notice plus 48 weeks' severance payment.	Four weeks' notice plus 48 weeks' severance payment.	Payment equal to one year's total remuneration.
MM Hudson	Three months' notice. Severance payment of one year's total remuneration.	Four weeks' notice plus one year's total remuneration severance payment and pro-rata short-term incentive amount.	Four weeks' notice plus severance payment equivalent to 18 weeks of fixed remuneration plus up to an additional four weeks of fixed remuneration for each year of service.	Payment equal to one year's total remuneration and pro-rata short-term incentive amount.
B Lawrence	Three months' notice.	10 weeks' notice plus severance payment calculated as twice base salary plus twice target STIP, and repatriation assistance is provided.	10 weeks' notice plus severance payment calculated as twice base salary plus twice target STIP, and repatriation assistance is provided.	Not applicable (repatriation assistance is provided where appropriate).
JJ Murphy	Three months' notice.	Four weeks' notice plus 48 weeks' severance payment.	Four weeks' notice plus severance payment equivalent to 18 weeks of fixed remuneration plus up to an additional four weeks of fixed remuneration for each year of service.	Payment equal to one year's total remuneration.
J Odell	Three months' notice.	Four weeks' notice plus 48 weeks' severance payment.	Four weeks' notice plus severance payment equivalent to 18 weeks of fixed remuneration plus up to an additional four weeks of fixed remuneration for each year of service or 48 weeks of redundancy payment (whichever is greater).	Payment equal to one year's total remuneration.
RW Scully	30 days' notice.	30 days' notice or payment in lieu.	12 months' notice or payment in lieu, plus severance package recognising service from 1 January 1996.	Not applicable.
PF Scott	Three months' notice.	Four weeks' notice plus severance payment calculated as twice base salary plus twice target STIP, and repatriation assistance is provided.	Four weeks' notice plus severance payment calculated as twice base salary plus twice target STIP, and repatriation assistance is provided.	Not applicable (repatriation assistance is provided where appropriate).
NJ Fielke	Three months' notice.	Four weeks' notice plus 48 weeks' severance payment.	Four weeks notice' plus severance payment equivalent to 18 weeks of fixed remuneration plus up to an additional four weeks of fixed remuneration for each year of service.	Payment equal to one year's total remuneration.

Section 6. Remuneration tables

6A. Remuneration of Directors and nominated executives

Details of the nature and amount of each element of the remuneration of each of the Directors and nominated executives are outlined in the following table. All amounts are in Australian dollars. Nominated executives, as referred to in this report, are:

- executive Directors (being the Chief Executive Officer);
- other Key Management Personnel (being those other persons having authority and responsibility for planning, directing and controlling the activities of the entity);
- former Key Management Personnel (being those persons who, at the date of this report, had previously held a position as Key Management Personnel during the years ended 30 June 2005 or 30 June 2006); and
- other executives (being any additional executives whose remuneration received during the year was within the five highest amounts).

The position titles listed in the following table refer to the titles as at the date of this report. Further details of the Key Management Personnel of Foster's Group Limited and the consolidated group, including the position titles used during the year ended 30 June 2006, are included in note 25 to the financial statements.

Remuneration Report continued

		Short-term benefits				
		Cash salary/ fees[1] $	Leave accrual/ payout[2] $	Non-monetary benefits[3] $	Committee fees $	Total cash bonus[4] $
Non-Executive Directors[11]						
FJ Swan	2006	281,486	–	4,000	–	–
Chairman	2005	285,750	–	4,000	–	–
ML Cattermole	2006	104,688	–	4,000	21,271	–
Non-executive Director	2005	95,250	–	4,000	9,200	–
DA Crawford	2006	50,688	–	4,000	7,454	–
Non-executive Director	2005	95,250	–	4,000	14,375	–
B Healey[12]	2006	50,688	–	4,000	10,138	–
Non-executive Director	2005	95,250	–	4,000	18,250	–
GW McGregor	2006	99,734	–	4,000	30,000	–
Non-executive Director	2005	95,250	–	4,000	20,700	–
MG Ould	2006	84,734	–	4,000	17,156	–
Non-executive Director	2005	105,250	–	5,120	9,200	–
Executive Director						
TL O'Hoy	2006	1,217,604	337,330	80,031	–	761,300
Chief Executive Officer	2005	1,118,644	116,772	15,523	–	1,426,000
Sub-total of Directors	2006	1,889,622	337,330	104,031	86,019	761,300
	2005	1,890,644	116,772	40,643	71,725	1,426,000
Other Key Management Personnel						
MM Hudson	2006	480,283	30,768	17,552	–	246,800
Chief Legal Officer & Company Secretary	2005	–	–	–	–	–
B Lawrence	2006	396,855	6,954	285,310	–	183,800
Chief Human Resources Officer	2005	371,678	–	230,945	–	337,500
J Odell	2006	604,980	36,325	54,168	–	241,500
Managing Director, Foster's Australia, Asia and Pacific	2005	577,750	22,437	69,859	–	635,000
PF Scott	2006	632,625	–	290,954	–	294,000
Chief Financial Officer	2005	604,216	–	215,504	–	540,000
RW Scully	2006	454,161	60,833	87,083	–	246,800
Chief Marketing Officer	2005	454,161	25,832	99,961	–	320,000
Sub-total of other Key Management Personnel[13]	2006	2,568,904	134,880	735,067	–	1,212,900
	2005	2,007,805	48,269	616,269	–	1,832,500
Former Key Management Personnel						
PA Bobeff[14]	2006	–	–	–	–	–
Senior Vice President Commercial Affairs (exit date 15 July 2005)	2005	585,610	–	36,181	–	532,500
NJ Fielke[15]	2006	287,001	23,751	49,985	–	110,573
Senior Marketing Director	2005	454,168	20,982	3,730	–	345,000
WT Klenz	2006	–	–	–	–	–
Managing Director Beringer Blass Wine Estates (exit date 31 December 2004)	2005	465,432	–	57,713	–	450,000
JJ Murphy[16]	2006	559,252	43,548	45,923	–	–
Managing Director, Foster's Australia (exit date 1 August 2006)	2005	541,228	11,665	55,617	–	665,000
G Willersdorf	2006	–	–	–	–	–
Senior Vice President – Corporate Affairs (exit date 31 December 2004)	2005	165,640	–	71,318	–	–
Total – Directors and Key Management Personnel	2006	5,304,779	539,509	935,006	86,019	2,084,773
	2005	6,110,527	197,688	881,471	71,725	5,251,000
Other executives						
DT Leese[17] Managing Director, Foster's Wine Estates North America Trade (exit date 30 September 2005)	2006	199,541	–	43,488	–	–
JF Philips[18] Managing Director, Foster's Wine Estates Europe, Middle East and Africa (exit date 30 June 2006)	2006	493,814	–	471,760	–	–

	Share-based payment			Post-employment benefits		Other	
Other payments[5] $	Total amortisation value of LTIP[6,7] $	Other equity[8] $	Shares purchased in lieu of cash salary/fees[9] $	Super-annuation contributions[10] $	Retirement benefits accrued during the year $	Termination benefits $	Total $
–	–	–	18,000	46,264	–	–	349,750
–	–	–	–	13,686	40,924	–	344,360
–	–	–	6,000	4,991	–	–	140,950
–	–	–	–	4,991	14,060	–	127,501
–	–	–	–	77,233	–	–	139,375
–	–	–	–	5,233	18,671	–	137,529
–	–	–	–	5,784	–	–	70,610
–	–	–	–	5,367	14,590	–	137,457
–	–	–	6,000	12,216	–	–	151,950
–	–	–	–	5,528	15,555	–	141,033
–	–	–	21,000	8,564	–	–	135,454
–	–	–	–	9,450	–	–	129,020
–	681,965	1,000	–	190,486	–	–	3,269,716
–	432,668	1,000	–	177,664	–	–	3,288,271
–	681,965	1,000	51,000	345,538	–	–	4,257,805
–	432,668	1,000	–	221,919	103,800	–	4,305,171
40,000	47,795	1,000	–	95,000	–	–	959,198
–	–	–	–	–	–	–	–
–	219,660	531	–	45,940	–	–	1,139,050
–	169,292	1,000	–	31,031	–	–	1,141,446
–	369,672	1,000	–	57,502	–	–	1,365,147
–	228,494	1,000	–	51,998	–	–	1,586,538
–	370,416	531	–	79,844	–	–	1,668,370
–	301,246	1,000	–	49,912	–	–	1,711,878
–	460,570	1,000	–	85,728	–	–	1,396,175
–	338,128	1,000	–	83,503	–	–	1,322,585
40,000	1,468,113	4,062	–	364,014	–	–	6,527,940
–	1,037,160	4,000	–	216,444	–	–	5,762,447
–	–	–	–	–	–	–	–
–	374,117	1,000	–	83,553	–	1,719,411	3,332,372
–	163,619	1,000	–	25,801	–	–	661,730
–	94,635	1,000	–	37,241	–	–	956,756
–	–	–	–	–	–	–	–
–	171,887	677	–	45,003	–	820,419	2,011,131
–	291,433	1,000	–	85,432	–	–	1,026,588
–	183,103	1,000	–	76,559	–	–	1,534,172
–	–	–	–	–	–	–	–
–	80,532	–	–	30,155	–	1,297,613	1,645,258
40,000	2,605,130	7,062	51,000	820,785	–	–	12,474,063
–	2,374,102	8,677	–	710,874	103,800	3,837,443	19,547,307
50,000	–	531	–	26,948	–	1,918,721	2,239,229
–	230,536	531	–	54,263	–	1,441,387	2,692,291

Section 6. Remuneration tables continued

(1) For non-executive Directors, this includes the 20 per cent of base fees that was used to purchase Foster's shares under the previous arrangements. The transaction was made post-tax and involved no restrictions on the shares.

(2) Leave accrual includes any net increases in the balance of annual leave and long service leave (i.e. leave entitlements that accrued during the year but were not used). It excludes any amounts paid out on termination as these are shown separately.

(3) Includes motor vehicles, event tickets, the value of interest foregone on outstanding interest-free loans for shares held under the Foster's Employee Share and Option Plan, which operated in previous years, product allocations such as wine, beer and other Foster's beverages, and Fringe Benefits Tax where applicable. In the case of Lawrence, Scott and Philips, amounts include costs associated with expatriate arrangements.

(4) Total Cash Bonus is the STIP payment in relation to the year ended 30 June 2006 (which is due to be paid on 15 September 2006). John Murphy is ineligible for STIP due to his resignation effective 1 August 2006.

(5) Other payments relate to $40,000 gross incentive paid to Martin Hudson on 15 July 2005, in lieu of lost incidental benefits upon ceasing employment with Southcorp Ltd, and $50,000 retention bonus paid to Dan Leese for completing the prior financial year.

(6) Amortisation value is determined in accordance with AASB 2 'Share-based Payment' and includes a proportion of the fair value (as described in section 7E) of all offers that have not yet vested at the start of the year, or which were offered during the year (including extended offers). The fair value is determined as at the offer date and is apportioned on a straight-line basis across the expected vesting period (being three years for standard offers and two years for extended offers).

(7) Amortisation value of LTIP as a percentage of total remuneration was as follows: O'Hoy – 21 per cent, Fielke – 25 per cent, Hudson – 5 per cent, Lawrence – 19 per cent, Murphy – 28 per cent, Odell – 27 per cent, Scott – 22 per cent, Scully – 33 per cent, Leese – 0 per cent, Philips – 9 per cent. All offers for Leese have lapsed due to cessation of employment.

(8) Other equity reflects shares granted to employees under the Foster's Employee Share Grant Plan.

(9) No shares have yet been purchased under the Directors' Share Purchase Plan, as the funds relating to the quarter ended 30 June 2006 are being held in a trust account until shares can be acquired in accordance with the Company's Share Trading Policy. Crawford has elected for all funds to be transferred to his superannuation fund, under which shares are subsequently purchased.

(10) Superannuation amounts for 2005 for O'Hoy, Murphy, Scully and Willersdorf have been re-stated to reflect the actuarial increase in benefit to the employee on retirement, in accordance with AASB 119 'Employee Benefits'.

(11) Amounts disclosed for Directors' remuneration exclude insurance premiums paid by the Company in respect of Directors' and officers' liability insurance contracts, as no reasonable basis for allocation can be determined.

(12) Brian Healey ceased to hold office as a non-executive Director on 31 December 2005.

(13) The aggregate total remuneration disclosed for all nominated executives in the 2005 Annual Report was $18,955,750, with the difference being due to changes in the nominated executives listed. Key Management Personnel who did not meet the definition of Specified Executive in 2005 were Ben Lawrence and Neville Fielke.

(14) Peter Bobeff ceased employment effective 15 July 2005, however, no amounts were paid to him after 1 July 2005, nor did he perform any duties as a Key Management Person during the year ended 30 June 2006.

(15) Values for Neville Fielke relate to the part-year that he was a Key Management Person, in the role of Senior Vice President Wine Clubs & Services up to 1 March 2006. For the remainder of the year he held the position of Senior Marketing Director.

(16) John Murphy resigned as Managing Director, Foster's Australia effective 1 August 2006. Final termination arrangements are being finalised at the date of this report, and will be disclosed in the 2007 Annual Report.

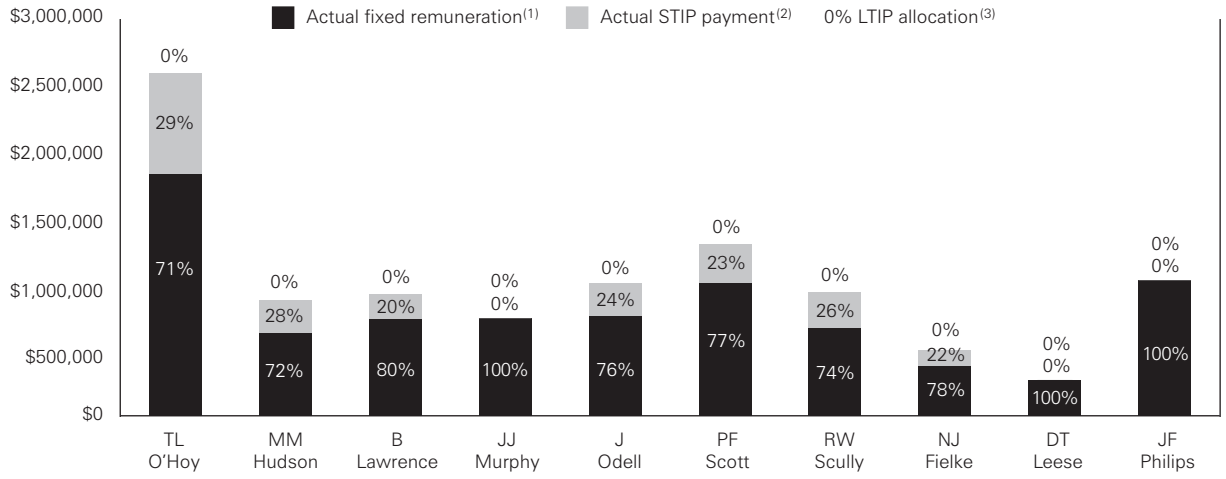
(17) Details for Dan Leese, who does not meet the definition of Key Management Personnel as required by AASB 124, are disclosed in accordance with the Corporations Act 2001. His termination payment includes a severance payment of US$1,440,000 based on two years' base salary plus two years' short-term incentive (as per service agreement) plus pay-out of accrued annual leave.

(18) Details for John Philips, who does not meet the definition of Key Management Personnel as required by AASB 124, are disclosed in accordance with the Corporations Act 2001. His termination payment includes a severance payment of US$1,125,000 based on two years' base salary plus two years' short-term incentive (as per service agreement), pay-out of accrued annual leave and the cost of repatriation from the United Kingdom to the United States.

6B. Summary of remuneration at-risk (nominated executives)

For the nominated executives, Chart 6.1 illustrates the proportion of fixed and at-risk remuneration for the year ended 30 June 2006, shown as a percentage of actual aggregate remuneration. All amounts are in Australian dollars.

Chart 6.1 – Actual remuneration mix for nominated executives



(1) Fixed remuneration includes value of cash salary, leave accruals, non-monetary benefits, and superannuation contributions as stated in Section 6 (but excluding termination payments).

(2) STIP payment refers to the Total Cash Bonus as stated in Section 6A. The STIP paid as a percentage of the nominated executive's target 2006 STIP was as follows: Trevor O'Hoy – 70 per cent (30 per cent of target STIP was forfeited); Martin Hudson – 69 per cent (31 per cent forfeited); Ben Lawrence – 76 per cent (24 per cent forfeited); John Murphy – 0 per cent (100 per cent forfeited as a result of his separation from the Company); Jamie Odell – 54 per cent (46 per cent forfeited); Pete Scott – 77 per cent (23 per cent forfeited); Rick Scully – 63 per cent (37 per cent forfeited); Neville Fielke – 60 per cent (40 per cent forfeited); Dan Leese – 0 per cent (100 per cent forfeited); John Philips – 0 per cent (100 per cent forfeited). No STIP payments were made to John Murphy, Dan Leese, and John Philips relating to the year ended 30 June 2006.

(3) No LTIP offers vested during the year ended 30 June 2006.

Section 7. Equity instruments relating to Directors and nominated executives

7A. Shareholdings of Directors and nominated executives

		Balance of shares at start of year [1]	Shares acquired during the year as part of remuneration [2]	Shares acquired during the year through the vesting of LTIP	Other shares acquired during the year [1,3]	Other changes during the year [4]	Balance of shares held at end of year [1,5]	Balance of shares held at reporting date [1,5,6]
Non-executive Directors								
FJ Swan	2006	87,183	–	–	13,818	–	101,001	101,001
	2005	82,421	–	–	4,762	–	87,183	87,183
ML Cattermole [7]	2006	161,628	–	–	3,401	–	165,029	165,029
	2005	117,363	–	–	39,494	–	156,857	156,857
DA Crawford	2006	13,320	–	–	7,505	–	20,825	20,825
	2005	12,350	–	–	970	–	13,320	13,320
B Healey	2006	44,385	–	–	2,824	–	47,209	47,209
	2005	43,937	–	–	448	–	44,385	44,385
GW McGregor	2006	24,140	–	–	4,417	–	28,557	28,557
	2005	22,746	–	–	1,394	–	24,140	24,140
M G Ould	2006	28,204	–	–	4,763	–	32,967	32,967
	2005	26,780	–	–	1,424	–	28,204	28,204
Executive Director (Chief Executive Officer)								
TL O'Hoy [8]	2006	236,577	178	–	–	–	236,755	236,755
	2005	185,386	191	51,000	–	–	236,577	236,577
Other Key Management Personnel								
MM Hudson	2006	61,584	178	–	–	–	61,762	n/a
	2005	–	–	–	–	–	–	n/a
B Lawrence	2006	27,924	95	–	808	–	28,827	n/a
	2005	6,500	89	20,500	835	–	27,924	n/a
J Odell	2006	22,191	178	–	19,194	–	41,563	n/a
	2005	4,000	191	18,000	–	–	22,191	n/a
PF Scott	2006	39,289	95	–	581	–	39,965	n/a
	2005	2,000	191	49,100	600	(12,602)	39,289	n/a
RW Scully	2006	713,591	178	–	–	–	713,769	n/a
	2005	665,400	191	48,000	–	–	713,591	n/a
Former Key Management Personnel								
PA Bobeff	2006	–	–	–	–	–	n/a	n/a
	2005	111,579	191	67,000	–	–	n/a	n/a
NJ Fielke	2006	23,690	178	–	903	–	n/a	n/a
	2005	–	191	–	23,499	–	n/a	n/a
WT Klenz	2006	–	–	–	–	–	n/a	n/a
	2005	5,100	1,354	60,700	–	–	n/a	n/a
JJ Murphy	2006	50,411	178	–	–	–	n/a	n/a
	2005	33,220	191	17,000	–	–	n/a	n/a
G Willesdorf	2006	–	–	–	–	–	n/a	n/a
	2005	122,521	–	33,000	–	–	n/a	n/a
Other executives								
DT Leese	2006	89	95	–	–	–	n/a	n/a
JF Philips	2006	89	95	–	–	–	n/a	n/a

[1] Includes directly held ordinary and phantom deferred shares, nominally held shares, and shares held by related parties of the individual.

[2] Includes shares granted under the Employee Share Grant Plan.

[3] Includes purchases, shares acquired by non-executive Directors with post-tax director fees, the Dividend Reinvestment Plan and, for Pete Scott and Ben Lawrence, additional phantom deferred shares allocated in lieu of dividends.

[4] Other changes during the year include shares sold by Pete Scott.

[5] Includes 10,348 shares held nominally by Trevor O'Hoy (i.e. in name only) as at 30 June 2006 and 29 August 2006.

[6] Balance of shares held as at 29 August 2006 relate to the date on which the Annual Report was signed, and is relevant to Directors only.

[7] Includes a relevant interest in 4,771 shares due to the definition of 'related party' in AASB 124. Opening balance for 2006 differs from closing balance for 2005 by 4,771 shares due to information regarding shares held by related parties becoming available during the year ended 30 June 2006.

[8] Includes a relevant interest in 44,465 shares due to the definition of 'related party' in AASB 124.

Remuneration Report continued

7B. Aggregate LTIP opportunities and changes

Aggregate LTIP opportunities and movements during the year are summarised below. Non-executive Directors do not participate in the LTIP.

		Maximum share opportunity at start of year[1]	Share opportunities offered during the year (maximum)[2]	Fair value of LTIP offered during the year[3]	Shares vested and converted during the year[4]
Executive Director (Chief Executive Officer)					
TL O'Hoy	2006	831,200	498,600	$1,470,804	–
	2005	617,000	413,200	$1,237,312	51,000
Other Key Management Personnel					
MM Hudson	2006	–	132,000	$372,240	–
	2005	–	–	–	–
B Lawrence	2006	283,700	120,400	$367,040	–
	2005	311,600	100,800	$321,502	20,500
J Odell	2006	478,600	240,300	$734,874	–
	2005	360,400	198,200	$588,872	18,000
PF Scott	2006	467,600	190,300	$579,586	–
	2005	500,700	182,400	$593,512	49,100
RW Scully	2006	570,800	219,600	$677,488	–
	2005	522,600	238,200	$742,472	48,000
Former Key Management Personnel					
PA Bobeff	2006	–	–	–	–
	2005	673,600	96,000	$368,640	67,000
NJ Fielke	2006	293,200	121,000	$341,220	–
	2005	151,800	141,400	$397,334	–
WT Klenz	2006	–	–	–	–
	2005	740,700	107,200	$411,648	60,700
JJ Murphy	2006	385,200	194,100	$569,478	–
	2005	250,200	208,000	$613,320	17,000
G Willesdorf	2006	–	–	–	–
	2005	344,400	48,000	$184,320	33,000
Other executives					
DT Leese	2006	285,600	–	–	–
JF Philips	2006	269,700	102,900	$315,030	–

(1) Maximum share opportunity is the maximum number of shares that can be achieved from all unvested LTIP offers as at the date indicated.

(2) Share opportunities offered during the year include those under the 2005 LTIP offer and the extended 2002 offer.

(3) Fair value is determined at the date of offer and is explained in section 7E.

(4) No offers vested or converted during the year.

(5) Share opportunities lapsed during the year include the original 2002 offer (the extended 2002 offer is listed separately as share opportunities offered during the year).

(6) The value of lapsed share opportunities is based on the fair value at the date of offer (as explained in section 7E).

(7) The net value of LTIP offered, vested, converted and lapsed during the year provides an indication of incremental value received during the year by aggregating the shaded columns (where those lapsed are treated as a negative). No items vested during the year.

(8) The aggregate value required under the Corporations Act 2001; Trevor O'Hoy – $1,928,728; John Murphy – $708,576; Jamie Odell – $1,094,808; Pete Scott – $903,670; Martin Hudson – $372,240; Neville Fielke – $341,220; Rick Scully – $1,043,636; Ben Lawrence – $574,492; Dan Leese – $741,406; John Philips – $502,406.

Date of vesting/ conversion	Share price on date of vesting/ conversion	Value of those converted during the year	Value of shares converted (over and above fair value)	Share opportunities lapsed during the year [5]	Value of lapsed opportunities [6]	Net value of LTIP offered, vested, converted and lapsed during year [7,8]	Maximum share opportunity at year end [1]
–	–	–	–	**191,600**	**$457,924**	**$1,012,880**	**1,138,200**
27/08/2004	$4.67	$738,327	$158,100	148,000	$321,160	$1,074,252	831,200
–	–	–	–	–	–	**$372,240**	**132,000**
–	–	–	–	–	–	–	–
–	–	–	–	**86,800**	**$207,452**	**$159,588**	**317,300**
06/09/2004	$4.63	$94,915	$58,177	62,000	$134,540	$245,139	303,600
–	–	–	–	**150,600**	**$359,934**	**$374,940**	**568,300**
27/08/2004	$4.67	$260,586	$55,800	62,000	$134,540	$510,132	478,600
–	–	–	–	**135,600**	**$324,084**	**$255,502**	**522,300**
06/09/2004	$4.63	$646,209	$139,570	118,400	$256,928	$476,154	515,600
–	–	–	–	**153,200**	**$366,148**	**$311,340**	**637,200**
27/08/2004	$4.67	$694,896	$148,800	142,000	$308,140	$583,132	570,800
–	–	–	–	–	–	–	–
27/08/2004	$4.67	$969,959	$207,700	192,000	$416,640	$159,700	510,600
–	–	–	–	–	–	**$341,220**	**414,200**
–	–	–	–	–	–	$397,334	293,200
–	–	–	–	–	–	–	–
30/08/2004	$4.67	$817,166	$174,982	236,600	$513,422	$73,208	550,600
–	–	–	–	**58,200**	**$139,098**	**$430,380**	**521,100**
27/08/2004	$4.67	$246,109	$52,700	56,000	$121,520	$544,500	385,200
–	–	–	–	–	–	–	–
27/08/2004	$4.67	$477,741	$102,300	359,400	$844,838	($558,218)	–
–	–	–	–	**285,600**	**$741,406**	**($741,406)**	–
–	–	–	–	**78,400**	**$187,376**	**$127,654**	**294,200**

7C. Current LTIP opportunities (by offer)

The table below outlines the threshold and maximum LTIP opportunities for executive Directors and nominated executives in all current offers under the Company's LTIP as at 30 June 2006.

	LTIP Offer (number of shares)							
	2001	2002	2003		2004		2005	
	Threshold/ Maximum [1]	Threshold/ Maximum [1]	Threshold	Maximum	Threshold	Maximum	Threshold	Maximum
Executive Director (Chief Executive Officer)								
TL O'Hoy	74,000	95,800	113,200	226,400	169,600	339,200	201,400	402,800
Other Key Management Personnel								
MM Hudson	–	–	–	–	–	–	66,000	132,000
B Lawrence [2]	28,100	36,200	44,000	88,000	40,400	80,800	42,100	84,200
J Odell	31,000	75,300	64,900	129,800	83,600	167,200	82,500	165,000
PF Scott [2]	53,600	56,500	73,300	146,600	65,900	131,800	66,900	133,800
RW Scully	71,000	76,600	89,700	179,400	83,600	167,200	71,500	143,000
Former Key Management Personnel								
NJ Fielke	–	–	75,900	151,800	70,700	141,400	60,500	121,000
JJ Murphy	28,000	29,100	59,500	119,000	90,000	180,000	82,500	165,000
Other executives								
DT Leese [3]	–	–	–	–	–	–	–	–
JF Philips	46,500	32,700	39,700	79,400	32,700	65,400	35,100	70,200

[1] Threshold opportunity is the number of shares allocated on reaching median performance. The minimum performance conditions for the 2001 and 2002 offers were not met, so only the threshold opportunity is now available to participants. Refer to Section 3 for more details.

[2] For Pete Scott and Ben Lawrence, the number of shares stated above is an estimate only (under the US version of the plan, actual numbers cannot be determined until vesting).

[3] All offers for Dan Leese lapsed due to cessation of employment prior to 30 June 2006.

7D. LTIP offers made/extended during the year

	Offer	Threshold opportunity (number of shares) [1]	Maximum opportunity (number of shares) [2]	Offer date	Start date performance period	End date performance period [3]	Value ($) per maximum entitlement at offer date [4]
Executive Director (Chief Executive Officer)							
TL O'Hoy	2002 extended	95,800	95,800	01/09/2005	01/09/2005	31/08/2007	$3.58
	2005	201,400	402,800	24/10/2005	24/10/2005	31/08/2008	$2.80
Other Key Management Personnel							
MM Hudson	2002 extended	–	–	–	–	–	–
	2005	66,000	132,000	29/09/2005	29/09/2005	31/08/2008	$2.82
B Lawrence [5]	2002 extended	36,200	36,200	01/09/2005	01/09/2005	31/08/2007	$3.58
	2005	42,100	84,200	29/09/2005	29/09/2005	31/08/2008	$2.82
J Odell	2002 extended	75,300	75,300	01/09/2005	01/09/2005	31/08/2007	$3.58
	2005	82,500	165,000	29/09/2005	29/09/2005	31/08/2008	$2.82
PF Scott [5]	2002 extended	56,500	56,500	01/09/2005	01/09/2005	31/08/2007	$3.58
	2005	66,900	133,800	29/09/2005	29/09/2005	31/08/2008	$2.82
RW Scully	2002 extended	76,600	76,600	01/09/2005	01/09/2005	31/08/2007	$3.58
	2005	71,500	143,000	29/09/2005	29/09/2005	31/08/2008	$2.82

7D. LTIP offers made/extended during the year continued

	Offer	Threshold opportunity (number of shares) [1]	Maximum opportunity (number of shares) [2]	Offer date	Start date performance period	End date performance period [3]	Value ($) per maximum entitlement at offer date [4]
Former Key Management Personnel							
NJ Fielke	2002 extended	–	–	–	–	–	–
	2005	60,500	121,000	29/09/2005	29/09/2005	31/08/2008	$2.82
JJ Murphy	2002 extended	29,100	29,100	01/09/2005	01/09/2005	31/08/2007	$3.58
	2005	82,500	165,000	29/09/2005	29/09/2005	31/08/2008	$2.82
Other executives							
DT Leese	2002 extended	–	–	–	–	–	–
	2005	–	–	–	–	–	–
JF Philips	2002 extended	32,700	32,700	01/09/2005	01/09/2005	31/08/2007	$3.58
	2005	35,100	70,200	29/09/2005	29/09/2005	31/08/2008	$2.82

[1] Threshold opportunity is the number of shares allocated on achieving median performance. For the extended 2002 offer, this is the same as the maximum opportunity.

[2] The maximum opportunity is the number of shares allocated on achieving or exceeding the 85th percentile. For the extended 2002 offer, this is the same as the threshold opportunity (being half the maximum opportunity that had been available under the 2002 offer before the extension).

[3] For the extended 2002 offer, the end of the performance period is the last opportunity for shares to be allocated under the offer. Shares may also be allocated before this date if the performance hurdle is met earlier.

[4] The value per maximum opportunity is the fair value per share opportunity based on the maximum possible allocation. Refer to Section 7E for more details.

[5] For Pete Scott and Ben Lawrence, the number of shares stated above is an estimate only (under the US version of the plan, actual numbers cannot be determined until vesting).

7E. Valuation of LTIP offers

In accordance with AASB 2 'Share-based Payment', each LTIP offer is valued as at its date of offer. The valuation model adopted to value the LTIP uses a 'Monte Carlo' simulation, which assesses the impact of the market-related performance conditions by projecting the share price of the companies in the peer group (refer Tables 3A and 3B), while allowing for correlations between those companies' share price movements.

The model incorporates the Company's share price at the date of offer, the expected risk-free rate of interest for the performance period, the expected annual dividend yield and the expected annual volatility of the share price returns. A simulation process is then executed numerous times to arrive at a distribution of possible LTIP offer values. The average of these values over all the simulations is the value of the LTIP at the offer date.

Offers made during the year, together with an estimate of the 2006 offer to be made to the Chief Executive Officer in October 2006, have the valuations and inputs shown below:

LTIP Offer	Offer date [1]	Value [2]	Share price at date of offer [3]	Foster's expected volatility [4]	Vesting period/ expected life [5]	Expected dividends [6]	Risk-free interest rate [7]
2005 CEO	24/10/2005	$2.80	$5.54	17.00%	2.8 years	4.0%	5.28%
2005	29/09/2005	$2.82	$5.75	17.00%	2.9 years	4.0%	5.27%
2002 Extended	01/09/2005	$3.58	$5.79	17.00%	2.0 years	4.0%	4.88%
2006 CEO Estimate	23/10/2006	$2.45	$5.47	17.00%	2.8 years	4.0%	5.80%

[1] For all offers, valuations are calculated as at the offer date (for the 2006 CEO Estimate, the offer date is the planned offer date).

[2] The value is the fair value based on the Monte Carlo simulation technique explained above. For the 2006 CEO Estimate, allocations relating to both Peer Groups are valued separately. $2.45 represents the average of the two valuations; Peer Group one is valued at $2.42 and Peer Group two is valued at $2.48.

[3] For the 2006 CEO Estimate, the share price at the offer date is assumed to be the closing price of the Company's shares traded on the ASX on 30 June 2006.

[4] Expected volatility is based on historical volatility measured over an appropriate period.

[5] Vesting period/expected life is the number of years between the offer date and the end of the potential vesting. For the extended 2002 offer, the maximum possible time from extension until vesting is assumed.

[6] Expected dividends are based on an analysis of the Company's historical dividend payments and yields.

[7] The risk-free interest rate is based on yields on Australian Treasury Bonds as at the offer date.

14 September 2006

Company Announcements Office
Australian Stock Exchange Limited
Level 6
20 Bridge Street
Sydney NSW 2000

Dear Sir,

Re: 2006 Notice of Annual General Meeting

In accordance with Listing Rule 3.17, attached is a copy of the 2006 Notice of Annual General Meeting, Proxy Form and a Questions from Shareholders form to be sent to shareholders.

Yours faithfully,

Robert K Dudfield
Assistant Company Secretary

Foster's Group Limited
ABN 49 007 620 886

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the members of Foster's Group Limited will be held at the Palladium at Crown, Level 1, 8 Whiteman Street, Southbank, Victoria, Australia on Monday, 23 October 2006, at 10.30 a.m.

Business:

Accounts

To consider the financial report and the reports of the Directors and of the Auditors for the financial year ended 30 June 2006.

Resolutions

Re-election of Directors

1. Mrs M L Cattermole retires by rotation in accordance with the Company's Constitution and, being eligible, offers herself for re-election.

2. Mr M G Ould retires by rotation in accordance with the Company's Constitution and, being eligible, offers himself for re-election.

Information regarding the candidates for re-election can be found in the accompanying Explanatory Notes.

Special Business:

3. Renewed Approval to operate existing Foster's Employee Share Plans

The resolution set out below will be proposed as an ordinary resolution:

'That the Directors be and are hereby authorised:

(a) to continue to operate the Foster's Long Term Incentive Plan;

(b) to continue to operate the Foster's Employee Share Grant Plan;

(c) to revive the operation of the Foster's International Share Plan;

and that issues of shares under each of the above plans are approved as an exception to ASX Listing Rule 7.1.'

4. Approval to establish and operate the Foster's Employee Share Acquisition Plan

The resolution set out below will be proposed as an ordinary resolution:

'That the Directors be and are hereby authorised:

(a) to establish a new plan to be called the Foster's Employee Share Acquisition Plan ('Acquisition Plan'), that allows for an acquisition of shares through cash sacrifice arrangements,

(b) to implement the Acquisition Plan:

(i) in Australia, and

(ii) in other countries in which employees are resident, with such modifications as are considered appropriate by the Directors to adapt to local conditions (whether as a result of local laws, regulations, tax concessions or otherwise) and which may include the making of cash awards or other arrangements to provide a substantially similar economic benefit where it is inefficient or uneconomical to implement the Acquisition Plan without modification, and

(c) to make offers under the Acquisition Plan and to satisfy those offers and arrangements with shares acquired on the Australian Stock Exchange or issues of new shares, such issues to be approved as an exception to ASX Listing Rule 7.1.'

5. Approval of the participation of Mr Trevor L O'Hoy, Chief Executive Officer of the Company, in the Foster's Long Term Incentive Plan

The resolution set out below will be proposed as an ordinary resolution:

'That the Company approve the acquisition of rights by Mr T L O'Hoy, Chief Executive Officer of the Company, under the Foster's Long Term Incentive Plan ('LTIP') for the 2006/2007 financial year in respect of up to a maximum of 454,200 ordinary shares in the Company, subject to the attainment of the relevant performance standards prescribed under the LTIP.'

6. Adoption of the Remuneration Report for the year ended 30 June 2006

To consider and put to a non-binding vote the following resolution:

'That the Remuneration Report required by section 300A of the Corporations Act, as contained in the Directors' Report of the Company, for the year ended 30 June 2006 be adopted.'

By Order of the Board,

Martin M Hudson,
Secretary.
Melbourne, 6 September 2006

Information for Members

1. The Company has determined in accordance with the Corporations Act, that for the purpose of voting at the meeting, shares will be taken to be held by those who hold them at 10.30 a.m. on Saturday, 21 October 2006.
2. A member entitled to attend and vote at the meeting may appoint a proxy. The person appointed as a proxy may be an individual or a body corporate. If entitled to cast two or more votes, the member may appoint one or two proxies.
3. Where two proxies are appointed, each proxy may be appointed to represent a specific proportion of the member's voting rights. If the proportion is not specified, each proxy may exercise half of the member's voting rights. Fractional votes will be disregarded.
4. Please read carefully the instructions on the Proxy Form and consider how you wish to direct the proxy to vote on your behalf. You may direct the proxy to vote "for", "against" or "abstain" from voting on each resolution or you may leave the decision to the appointed proxy after discussion at the meeting.
5. A proxy need not be a member of the Company.
6. The Proxy Form must be signed by the member or the member's attorney. Proxies given by corporations must be signed in accordance with the corporation's constituent documents, or as authorised by the Corporations Act.
7. To be valid, the Proxy Form must be lodged at least 48 hours before the time for holding the meeting by one of the following methods:

   (a) by mail or in person at the registered office of the Company or the office of the Company's Share Registry:

   Computershare Investor Services Pty Limited
   GPO Box 242, Melbourne, Victoria 3001;

   or

   Yarra Falls, 452 Johnston Street,
   Abbotsford, Victoria 3067, Australia;

   (b) by facsimile to the Company's Share Registry on (03) 9473 2555; or

   (c) electronically, by visiting www.fostersgroup.com and clicking on 'AGM Proxy'.

8. If the Proxy Form is executed under a power of attorney that has not been noted by the Company, the power of attorney must accompany the Proxy Form.
9. In the case of joint shareholders, the names of all joint shareholders should be shown and all joint shareholders should sign the Proxy Form.

Corporations

A corporation that is a member or a proxy may elect to appoint a representative in accordance with the Corporations Act, in which case the Company will require written proof of the representative's appointment, which must be lodged with or presented to the Company before the meeting.

Voting

In accordance with the ASX Listing Rules, any vote cast on:

(a) Resolutions 3 and 4 by any of the Directors or their associates (including any undirected proxies held by Directors other than the person chairing the meeting); and

(b) Resolution 5 by Mr O'Hoy or any associate of him;

will be disregarded, provided that it need not be disregarded if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Explanatory Notes

RESOLUTION 1
Re-election of Mrs M L Cattermole as a Director

Mrs Lyndsey Cattermole AM, B.Sc., FACS is a non-executive Director and has been a member of the Board since October 1999. She is 58 years of age. Mrs Cattermole is also a director of Tattersall's Limited.

Mrs Cattermole has had extensive information technology and telecommunications experience. She was a founder and a former Executive Director of Aspect Computing Pty Ltd and later of the Kaz Group Limited. Her experience in the identification and successful development of such an innovative business opportunity continues to be of great value. She also has had a number of significant appointments to government, hospital and research boards and committees.

Mrs Cattermole is the Chairperson of the Risk and Compliance Committee and a member of the Audit Committee.

Mrs Cattermole is considered by the Board to be an independent Director.

An assessment of the performance of Mrs Cattermole has been conducted in the context of her skills, experience, knowledge, understanding of Foster's businesses and the diversity represented on the Board. Further to that assessment, the Directors make the recommendation below.

Directors' Recommendation

The Directors (other than Mrs Cattermole who abstained because of her interest in the resolution) have resolved to recommend that shareholders vote in favour of the re-election of Mrs Cattermole. The Chairman intends to vote undirected proxies in favour of this resolution.

RESOLUTION 2
Re-election of Mr M G Ould as a Director

Mr Max Ould B.Ec. is a non-executive Director and has been a member of the Board since February 2004. He is 59 years of age. Mr Ould is also a Director of The Australian Gas Light Company, Pacific Brands Limited and Chairman of Goodman Fielder Limited.

Mr Ould has had extensive experience in the fast moving consumer goods industry, including in many enterprises that derive their products from agricultural sources. He was the former Managing Director and Chief Executive Officer of National Foods Limited and is the former Chief Executive Officer of Pacific Dunlop's Peters Foods division and Managing Director of the East Asiatic Company.

Mr Ould is the Chairperson of the Human Resources Committee and a member of the Risk and Compliance Committee.

Mr Ould is considered by the Board to be an independent Director.

An assessment of the performance of Mr Ould has been conducted in the context of his skills, experience, knowledge, understanding of Foster's businesses and the diversity represented on the Board. Further to that assessment, the Directors make the recommendation below.

Directors' Recommendation

The Directors (other than Mr Ould who abstained because of his interest in the resolution) have resolved to recommend that shareholders vote in favour of the re-election of Mr Ould. The Chairman intends to vote undirected proxies in favour of this resolution.

RESOLUTION 3
Renewed Approval to operate existing Foster's Employee Share Plans

The Board is of the view that a successful employee incentive scheme is an essential component of any comprehensive human resources policy that aims to enhance the future prospects of the Company. The existing plans that Foster's currently operates, namely the Long Term Incentive Plan ('LTIP') and the Employee Share Grant Plan ('Share Grant Plan'), have provided a good framework for the Company to motivate its employees. Shareholders are asked to renew the mandate to operate existing equity-based incentive schemes and arrangements under which employees of Foster's Group Limited ('Foster's' or 'Company') and its subsidiaries (collectively 'Foster's Group') may acquire ordinary shares in Foster's so that issues of shares under those schemes and arrangements are approved as an exception to ASX Listing Rule 7.1.

Foster's also previously operated the Foster's International Employee Share Plan (No. 1) ('International Plan') in certain jurisdictions overseas until that Plan was replaced with the Share Grant Plan. As the International Plan has similar features to the new Employee Share Acquisition Plan ('Acquisition Plan') proposed by Foster's (refer Resolution 4), the Company intends to revive and, to the extent applicable (and in certain overseas jurisdictions where the International Plan may be more suitable than the Acquisition Plan due to local regulatory issues), make offers under the International Plan rather than under the Acquisition Plan. Accordingly, shareholders are also asked to renew the mandate for Foster's to operate the International Plan so that issues of shares under the International Plan are approved as an exception to ASX Listing Rule 7.1.

A description of the LTIP, the Share Grant Plan and the International Plan is set out below. Copies of the plans are available for inspection at the Company's registered office and will be provided without charge to shareholders on request.

Under ASX Listing Rule 7.1, a listed company must not issue or agree to issue equity securities exceeding 15% of its capital on issue in the previous 12 months unless it obtains the approval of its shareholders. One of the exceptions to this listing rule is that any issue of shares under an employee share scheme within 3 years of the scheme being approved as an exception to ASX Listing Rule 7.1 will not be counted in that 15% limit.

Accordingly, shareholders are also requested to approve issues of shares under the LTIP, the Share Grant Plan and the International Plan as an exception to ASX Listing Rule 7.1.

3.1 Long Term Incentive Plan (LTIP)

History and Establishment

Offers under the LTIP have been made each year since the LTIP was established in 1998. A participant's entitlement to shares under those offers is subject to the achievement of performance standards and provided the shares are not forfeited in accordance with the LTIP, as described below. The LTIP was last approved for the purposes of the exception to ASX Listing Rule 7.1 at the Foster's Annual General Meeting in 2003 and, since that approval, Foster's have granted rights under the LTIP to acquire up to 15,201,800 shares in Foster's.

Description

As its name suggests, the LTIP is designed to provide a long term incentive to key staff based on the Company's share returns exceeding those of comparable companies over a sustained period.

Participation in the LTIP is extended to selected individuals who have the capacity to make an impact on the long term performance of the Company. Grants made under the LTIP entitle a participant to receive Foster's ordinary shares if the performance standards specified in the grant are met. Each grant will also specify the minimum and maximum number of shares that the participant may receive if the performance conditions are satisfied.

Upon satisfaction of those performance standards, the Company will issue shares to the LTIP trustee which will hold those shares for and on behalf of the participant for a maximum of 10 years, or until the participant leaves the employment of the Foster's Group prior to that period (whichever occurs first), at which point the shares will be transferred by the LTIP trustee to the participant or as directed by the participant. Participants do not make any monetary payment to the Company for the issue of the shares.

Whilst the shares are held on behalf of the participant, the participant will receive dividends and participate in share issues. Participants can also direct the LTIP trustee on how to vote at general meetings and participate in rights issues, provided the participant provides the requisite funds to participate in the rights issue.

Provided their shares have not been forfeited under the LTIP as a result of the participant being dismissed with cause, declared bankrupt, or committing any act of fraud, defalcation or misconduct which brings the Foster's Group into disrepute, participants can instruct the LTIP trustee at any time to transfer their shares.

Performance Condition

The performance period for grants under the LTIP is 3 years or such other period determined by the Board. Following amendments to the LTIP in 2005, the performance period for offers made in 2005 and subsequent years will lapse if the minimum performance level is not obtained after the initial performance period. The initial 3 year performance period for LTIP offers made prior to 2005 may be extended by up to 2 years at the discretion of the Board.

Performance Standard

The performance standard applied over the performance period is the Company's total shareholder return ('TSR') performance relative to the TSR performance of peer companies.

TSR performance is expressed as the percentage change over the performance period between the volume weighted average price of a company's shares at the commencement of the performance period and the volume weighted average price of a company's shares at the end of the performance period, assuming all dividends and other distributions paid during the performance period are reinvested in the company's shares. Foster's and each peer company are then ranked according to their TSR performance in descending order.

Previously, grants were made on the basis that there was only one peer group, comprising Australian companies and comparable international beverage companies. For the 2006 and future offers, the peer group has been selected on similar principles but will be split into 2 groups. Half of each participant's maximum share entitlement will be measured against Foster's performance relative to Australian non-beverage companies, with the other half to be measured independently against the performance of international alcoholic beverage companies. This change ensures that

participants will only receive their maximum entitlement under their LTIP grant if Foster's has outperformed both peer groups and not where it has not performed adequately against one of the peer groups.

Furthermore, the change is likely to increase the focus of participants on the Company's performance relative to international peers, thus increasing the relevance of the LTIP to international participants. This will also align the LTIP more closely with the Company's objective of becoming a leading international beverage company.

The Remuneration Report in the Company's Annual Report lists the companies in each of the peer groups in respect of the 2006 offer.

The number of shares that a participant may receive under the 2006 and future offers will depend on Foster's ranking assessed separately against the 2 peer groups at the end of the performance period. Allocations under each peer group are independent of each other. For each allocation:

- where Foster's is ranked below the median, 0% of the participant's maximum opportunity relating to that peer group is allocated;
- where Foster's is ranked at the median, 50% of the participant's maximum opportunity relating to that peer group is allocated;
- where Foster's is ranked at the 85th percentile or higher, 100% of the participant's maximum opportunity relating to that peer group is allocated;
- where Foster's is ranked between the median and 85th percentile, a proportion between 50% and 100% of the participant's maximum opportunity relating to that peer group is allocated.

An entitlement is earned only if, in the opinion of the Board, a participant's performance over the period warrants the acquisition of shares by the Trustee, on behalf of the participant.

Continued Participation

Generally, participants who leave the Foster's Group before vesting of the grants will cease participating in the LTIP. In the event that cessation of employment is as a result of retirement, redundancy, ill health, death or the participant's employer ceasing to be a Foster's Group company, the participant may be entitled to a cash payment that the Board considers appropriate having regard to the period of time which has elapsed since the offer, and the degree to which the performance standards have been achieved.

If there is a change in control of the Company, as set out in the Trust Deed, the participant is entitled to an amount that the Directors decide is appropriate in the circumstances.

Awards under the LTIP are subject to Foster's Share Trading Policy which prohibits participants from entering into "hedge" arrangements, such as derivative based contracts with third parties, under which the participant may receive an economic benefit regardless of the degree to which the performance standards have been achieved. LTIP awards will lapse where this policy is breached.

The Board's Human Resources Committee supervises the administration of the LTIP and has the right to suspend or terminate the LTIP at any time. Suspension or termination of the LTIP will not affect participants' rights or entitlement to shares under LTIP grants already offered and not vested.

Overseas

Participation in the LTIP is extended to selected individuals overseas. Grants made overseas are on a similar basis as those made in Australia, including the requirement for performance standards to be reached over an equivalent performance period in order for any shares to be allocated, except that participation is governed by a different set of rules adapted from the Australian version to accommodate the requirements of local laws and regulatory conditions.

3.2 Share Grant Plan

History and Establishment

The Share Grant Plan was established in 2004 and approved by shareholders at the 2004 Annual General Meeting of the Company. Grants have been made in each financial year since the Share Grant Plan was established and to date 1,993,939 shares have been issued under the Share Grant Plan.

Description

Under the Plan, eligible employees of the Foster's Group who meet the minimum service period of six months are granted ordinary shares up to a value of $1,000. Employees do not have to make any monetary payment for the shares. Further, the Plan is designed to qualify for concessions under Australian tax laws so there is generally no income tax implication for employees who are resident in Australia at the time the shares are acquired and who elect to avail themselves of the tax concessions. Shares issued under the Share Grant Plan are ordinary shares receiving all benefits of share ownership such as dividends.

Restriction

Employees must not transfer their shares until the earlier of 3 years after acquiring the shares and the employee leaving employment with the Foster's Group.

Financial Performance Criteria

The Plan provides that offers may be made if Foster's achieves designated financial performance targets which, unless the Board decides otherwise, will be the percentage growth in the Company's normalised consolidated net profit on a year on year basis, being at or greater than the percentage increase in the Consumer Price Index over that year.

Whilst Foster's are not required to make offers each year, it must not make more than one offer in each financial year. Foster's have made two offers under the Plan (namely in the 2004/2005 and 2005/2006 financial years).

Overseas

The Share Grant Plan also operates on a similar basis in various overseas jurisdictions but, in some cases, under slightly different rules to accommodate the requirements of local laws and regulatory conditions.

3.3 International Plan

History and Establishment

The International Plan was established in 2001 and was designed to facilitate employee share ownership in overseas jurisdictions in which it was not practicable for Foster's to operate the version of the employee share plan that operated in Australia at the time, namely the Foster's Employee Share and Option Plan.

The International Plan was last approved by shareholders at the Annual General Meeting of the Company in 2003, and since that approval 173,175 shares have been issued under it.

Description

The International Plan is a salary sacrifice type plan and invitations are made to eligible employees of the Foster's Group to acquire shares in the Company by regular authorised salary deductions from the employee's salary over a period determined by Foster's at the time of the invitation. Shares issued under the International Plan are ordinary shares receiving all benefits of share ownership such as dividends.

Restriction

Shares issued under the International Plan are registered in the name of the participating employee but the employee must not transfer their shares during a restriction period of not less than 12 months.

3.4 Directors' Recommendation

The Directors (other than Mr O'Hoy who abstained due to his personal interest in the matter) recommend that shareholders vote in favour of the resolution. The Chairman intends to vote undirected proxies in favour of this resolution.

RESOLUTION 4
Approval to establish and operate the Foster's Employee Share Acquisition Plan

The Board has reviewed Foster's existing equity incentive arrangements so that those arrangements will reflect current market best practice in remuneration strategies and create a community of interest between the Company's employees and shareholders to maximise returns.

The Board is aware that many employees would like to use part of their regular or bonus income to acquire shares in the Company. Many listed Australian companies provide similar plans to their employees and shareholders are asked to approve a new plan to facilitate these arrangements.

Accordingly, shareholders are asked to approve the new Acquisition Plan and to approve any issues of shares under the Acquisition Plan as an exception to ASX Listing Rule 7.1.

A description of the Acquisition Plan is set out below. Copies of the draft rules for the Acquisition Plan are available for inspection at the Company's registered office and will be provided without charge to shareholders on request.

Description

The Acquisition Plan entails arrangements under which eligible employees of the Foster's Group can elect to sacrifice a portion of their cash salary, and all or any portion of their cash bonuses or other equivalent payments, to acquire ordinary shares in Foster's.

Although the rules of the Plan allow for Foster's to either issue new shares or acquire shares on market for allocation to the Trustee for and on behalf of participants, it is the Board's intention that all shares allocated under the Plan will be existing shares acquired on market to avoid a dilution of existing shareholders' equity.

Participation

Participation in the Plan is voluntary but must be over a fixed period specified by the Board (generally, 1 year). Eligible employees must elect to participate in the Plan prior to the commencement of the fixed period of participation. It is envisaged that participation will only be allowed on an annual basis.

The rules of the Plan allow for the Board to offer a discount to Employees on the price of shares acquired under the Plan. However, it is not the present intention of the Board to offer any discount in respect of shares acquired under the Acquisition Plan.

The Company will also have discretion to determine that a fixed percentage of any cash bonus or equivalent cash

incentive payment made to an employee shall be in the form of shares under the Acquisition Plan.

Restrictions and Trust Arrangement

Shares acquired under the Acquisition Plan will be held in trust until the earlier of such time when the restrictions on disposal cease to apply and when the employee ceases to be employed by the Foster's Group. The period of restriction on disposal will be 3 years or such other period determined by the Board.

The Plan is designed to enable employees to benefit from concessions available under Australian tax laws under which the employee may defer a taxable event in respect of the shares acquired for so long as the shares remain subject to a restriction on disposal.

Overseas

Participation in the Acquisition Plan is likely to be extended to eligible employees overseas on essentially the same or a similar basis as in Australia except that participation may be governed by a different set of rules to accommodate the requirements of local laws and regulatory conditions.

It is envisaged that instead of the Acquisition Plan, in the United States (and possibly other jurisdictions), Foster's may utilise the International Plan which previously operated there until it was in effect replaced by the Share Grant Plan. A summary of the terms of the International Plan is set out in Section 3.3 above.

Plan Limits

The aggregate number of shares which may be acquired under the Acquisition Plan at any one time must not, when added to:

- shares remaining partly paid or subject to an outstanding loan under Foster's previous employee share plans;
- shares which may be issued under outstanding options awarded under Foster's previous employee share and/or option plans; and
- other shares issued during the past 5 years under any Foster's employee or executive share and/or option plans (whether in Australia or overseas),

exceed 5% of the number of shares on issue at the time.

Source of Shares

Shares allocated may be existing shares acquired on the Australian Stock Exchange or newly issued shares. The ability to allocate existing shares that are purchased on the Australian Stock Exchange will enable the Company to offer participation in the Plan without diluting shareholders' equity which results from an issue of new shares.

Approval as an exception to ASX Listing Rule 7.1

The Company asks shareholders to approve issues of shares under the Acquisition Plan as an exception to ASX Listing Rule 7.1.

As the Acquisition Plan is not yet in operation, no securities have been issued under it.

Directors' Recommendation

The Directors (other than Mr O'Hoy who abstained due to his personal interest in the matter) recommend that shareholders vote in favour of the resolution. The Chairman intends to vote undirected proxies in favour of this resolution.

RESOLUTION 5
Approval of the participation of Mr Trevor L O'Hoy, Chief Executive Officer of the Company, in the Foster's Long Term Incentive Plan

Under ASX Listing Rule 10.14, a Director of the Company may only participate in an employee share plan where such participation is approved by ordinary resolution of the Company in general meeting or a waiver is granted by the ASX.

Mr O'Hoy currently participates in the Long Term Incentive Plan ('LTIP'), as do other executives as outlined in Resolution 3 above, and awards made to Mr O'Hoy are subject to the same performance standards. It is intended that Mr O'Hoy will participate in the LTIP in respect of the 2006/2007 year.

In respect of Mr O'Hoy's 2006 offer, it is proposed that he be entitled to a maximum of 454,200 shares, but only if the Company's TSR ranking is at the 85th percentile ranking or above for both peer groups. If the Company achieves a median ranking against both peer groups, it is proposed that Mr O'Hoy will be entitled to 227,100 shares. If the Company does not achieve a median ranking against either peer group, Mr O'Hoy will be entitled to no shares in respect of the 2006 offer.

Taking account of the impact of the performance hurdle and the probability of the maximum performance standard being achieved, the estimated value of the right to participate to the maximum of 454,200 shares is $1,112,790.

The time at which any such shares would be acquired would be in or around September 2009 and any shares acquired by the LTIP trustee for Mr O'Hoy under the LTIP will be at no cost to him.

ASX has granted a waiver which entitles shares to be issued to the LTIP trustee for the benefit of Mr O'Hoy as and when an obligation to issue arises. The issue of shares to Mr O'Hoy is dependent on shareholder approval of this Resolution.

Pursuant to shareholder approval at the 2005 Annual General Meeting, Mr O'Hoy obtained rights to acquire up to a maximum of 402,800 shares in respect of the 2005/2006 LTIP at no cost to him. Mr O'Hoy is the only person for the purpose of Listing Rule 10.14 who participated in the 2005/2006 LTIP. Other details of Mr O'Hoy's entitlements to acquire shares under previous LTIP offers are set out in the Remuneration Report in the Company's Annual Report.

Directors' Recommendation

The Directors (other than Mr O'Hoy who abstained because of his personal interest in the matter) have resolved that:

- in their view, the overall remuneration of Mr O'Hoy, which includes his participation in the LTIP, is reasonable having regard to the circumstances of the Company and of Mr O'Hoy; and
- it is in the best interests of the Company for Mr O'Hoy to participate in the LTIP and recommend that shareholders vote in favour of the resolution.

The Chairman intends to vote undirected proxies in favour of this resolution.

RESOLUTION 6
Adoption of the Remuneration Report

Consistent with section 250R of the Corporations Act, shareholders are asked to consider and adopt by way of a non-binding resolution the Remuneration Report for the year ended 30 June 2006. At the meeting there will be a reasonable opportunity for discussion of the report.

The Remuneration Report is a distinct section of the annual Directors' Report which deals with the remuneration of Directors and executives (which include secretaries and senior managers) of the Company. The Remuneration Report can be located in the Company's Annual Report on pages 16 to 31. It is also available on Foster's website (www.fostersgroup.com).

The Remuneration Report includes:

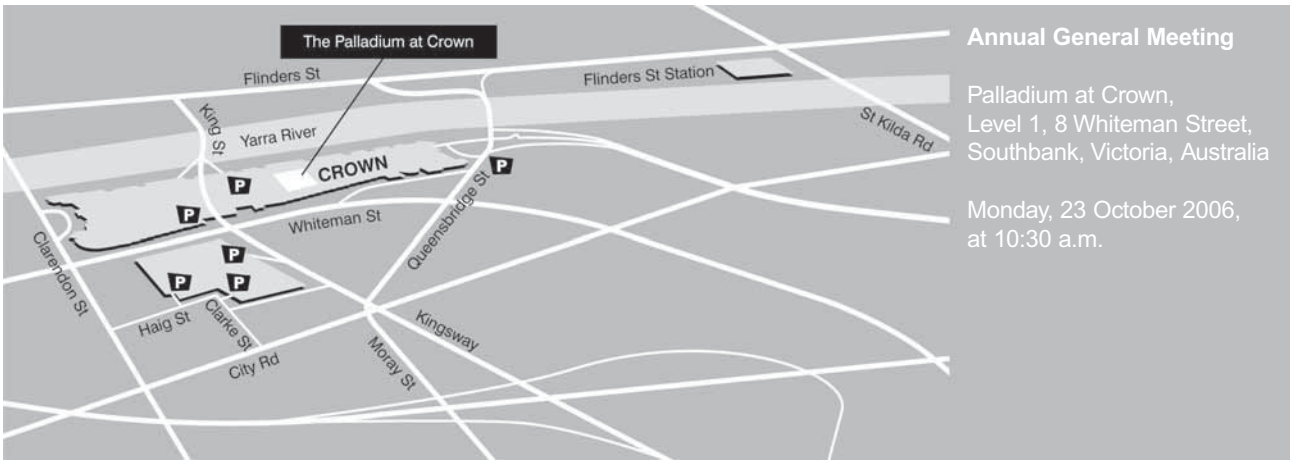
- an explanation of the Board's policies in relation to the nature and level of remuneration of Directors and executives;
- a discussion of the link between executives' remuneration and the Company's performance;
- details of any element of the remuneration of Directors and executives that is dependent upon the satisfaction of a performance condition; and
- details of the total remuneration (as well as a categorised break-down of its components) of each Director of the Company and the five executives of the Company and the Group who receive the highest remuneration.

The Remuneration Report also includes additional disclosures relating to the remuneration of the Key Management Personnel of the Company and the Group, who may or may not be the five executives who received the highest remuneration for the year, in accordance with AASB 124 'Related Party Disclosures'. Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and/or the Group.

Directors' Recommendation

The Directors recommend shareholders vote in favour of the resolution. The Directors acknowledge however that they have a personal interest in some aspects of the Remuneration Report.

The Chairman intends to vote undirected proxies in favour of this resolution.



FOSTER'S GROUP LIMITED

ABN 49 007 620 886

Proxy Form

All correspondence to:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia
Enquiries (within Australia) 1300 134 708
(outside Australia) 61 3 9415 4022
Facsimile 61 3 9473 2555
www.computershare.com

Mark this box with an 'X' if you have made any changes to your address details (see reverse) [X]

000001
000
FGL
MR JOHN SMITH 1
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Securityholder Reference Number (SRN)

I 1234567890 I N D

Appointment of Proxy

I/We being a member/s of Foster's Group Limited and entitled to attend and vote hereby appoint

[X] the Chairman of the Meeting (mark with an 'X')

OR

[ ] If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Foster's Group Limited to be held at the Palladium at Crown, Level 1, 8 Whiteman Street, Southbank, Victoria on Monday 23 October 2006 at 10:30am and at any adjournment of that meeting.

IMPORTANT: FOR ITEMS 3 & 4 BELOW

[X] If the Chairman of the Meeting is your nominated proxy, or may be appointed by default, and you have not directed your proxy how to vote on Items 3 & 4 below, please place a mark in this box. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of these Items and that votes cast by him, other than as proxy holder, would be disregarded because of that interest. The Chairman of the Meeting intends to vote undirected proxies in favour of Items 3 & 4. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Items 3 & 4 and your votes will not be counted in computing the required majority if a poll is called on these Items.

Voting directions to your proxy - please mark [X] to indicate your directions

		For	Against	Abstain*
Item 1	Re-election of Mrs M L Cattermole as a Director			
Item 2	Re-election of Mr M G Ould as a Director			
Item 3	Renewed Approval to operate existing Foster's Employee Share Plans			
Item 4	Approval to establish and operate the Foster's Employee Share Acquisition Plan			
Item 5	Approval of the participation of Mr Trevor L O'Hoy, CEO of the Company, in the Foster's Long Term Incentive Plan			
Item 6	Adoption of the remuneration report			

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

In accordance with the ASX Listing Rules, Directors other than the Chairman of the Meeting will not vote any undirected proxies in respect of Items 3 and 4.

PLEASE SIGN HERE

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

In addition to signing the Proxy form in the above box(es) please provide the information below in case we need to contact you.

Contact Name _____ Contact Daytime Telephone _____ Date / /

How to complete this Proxy Form

1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) return both forms together in the same envelope.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual:	where the holding is in one name, the holder must sign.
Joint Holding:	where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney:	to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry or at **www.computershare.com**.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting at 10:30am on Monday 23 October 2006. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Documents may be lodged using the reply paid envelope or:

BY WEB	Visit www.fostersgroup.com and click on "AGM Proxy"
BY MAIL	Share Registry - Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001 Australia
IN PERSON	Share Registry - Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067 Australia Registered Office - 77 Southbank Boulevard, Southbank VIC 3006 Australia
BY FAX	61 3 9473 2555

All correspondence to:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

FOSTER'S GROUP

Questions from Shareholders

The Annual General Meeting (AGM) of Foster's Group Limited will be held on Monday 23 October 2006 at 10.30am. Shareholders are invited to register questions in advance of the AGM.

This form may also be used to submit a written question to the auditor if the question is relevant to the content of the auditor's report or the conduct of the audit of the financial report to be considered at the AGM.

In the course of the AGM we intend to respond to as many of the more frequently asked questions as is practicable. Responses to the more frequently asked questions will be available on the Foster's website after the AGM.

Shareholder questions must be received by Monday 16 October 2006. Please return the form to our Share Registry, Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne Victoria 3001 or by facsimile to (613) 9645 7226. The envelope provided for the return of your proxy form may also be used for this purpose. Alternatively, you may email your questions to **shareholderquestions@fostersgroup.com.** If emailing please include your name and Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

Shareholder's Name

Securityholder Reference Number (SRN) I

or

Holder Identification Number (HIN) X

Question/s

Please tick ☑ if it is a question directed to the Auditor

1 .....

2 .....

3 .....

4 .....

FOSTER'S GROUP LIMITED
ABN 49 007 620 886

23 October 2006

ANNUAL GENERAL MEETING – 23 OCTOBER 2006

In accordance with section 251AA of the Corporations Act, the following information is provided in relation to resolutions passed by members of Foster's Group Limited at its Annual General Meeting on 23 October 2006:

Resolution 1 Re-election of Mrs M L Cattermole as a Director	
The motion was carried as an ordinary resolution on a poll.	
Total number of proxy votes exercisable by all proxies validly appointed	1,156,898,504
Total number of proxy votes in respect of which the appointments specified that:	
- the proxy is to vote for the resolution	1,122,443,502
- the proxy is to vote against the resolution	10,877,545
- the proxy may vote at the proxy's discretion	23,577,457
- the proxy is to abstain on the resolution	1,108,528
If the resolution is decided on a poll the total number of votes cast on the poll:	
- in favour of the resolution	1,148,802,955
- against the resolution	10,903,045
- abstaining on the resolution	1,118,114

Resolution 2 Re-election of Mr M G Ould as a Director	
The motion was carried as an ordinary resolution on a poll.	
Total number of proxy votes exercisable by all proxies validly appointed	1,156,690,030
Total number of proxy votes in respect of which the appointments specified that:	
- the proxy is to vote for the resolution	1,131,523,089
- the proxy is to vote against the resolution	1,461,409
- the proxy may vote at the proxy's discretion	23,705,532
- the proxy is to abstain on the resolution	1,317,002
If the resolution is decided on a poll the total number of votes cast on the poll:	
- in favour of the resolution	1,158,023,010
- against the resolution	1,475,133
- abstaining on the resolution	1,325,971

Resolution 3 Renewed Approval to operate existing Foster's Employee Share Plans	
The motion was carried as an ordinary resolution on a poll.	
Total number of proxy votes exercisable by all proxies validly appointed	1,140,569,088
Total number of proxy votes in respect of which the appointments specified that:	
- the proxy is to vote for the resolution	1,113,883,200
- the proxy is to vote against the resolution	12,826,189
- the proxy may vote at the proxy's discretion	13,859,699
- the proxy is to abstain on the resolution	7,187,095
If the resolution is decided on a poll the total number of votes cast on the poll:	
- in favour of the resolution	1,130,106,040
- against the resolution	12,896,206
- abstaining on the resolution	7,281,249

Resolution 4 **Approval to establish and operate the Foster's Employee Share Acquisition Plan**	
The motion was carried as an ordinary resolution on a poll.	
Total number of proxy votes exercisable by all proxies validly appointed	1,146,390,038
Total number of proxy votes in respect of which the appointments specified that:	
- the proxy is to vote for the resolution	1,119,027,633
- the proxy is to vote against the resolution	13,398,542
- the proxy may vote at the proxy's discretion	13,963,863
- the proxy is to abstain on the resolution	1,899,979
If the resolution is decided on a poll the total number of votes cast on the poll:	
- in favour of the resolution	1,135,401,784
- against the resolution	13,457,864
- abstaining on the resolution	1,957,681

Resolution 5 **Approval of the participation of Mr Trevor L. O'Hoy, CEO of the Company, in the Foster's Long Term Incentive Plan**	
The motion was carried as an ordinary resolution on a poll.	
Total number of proxy votes exercisable by all proxies validly appointed	1,154,945,544
Total number of proxy votes in respect of which the appointments specified that:	
- the proxy is to vote for the resolution	1,101,129,595
- the proxy is to vote against the resolution	30,422,539
- the proxy may vote at the proxy's discretion	23,393,410
- the proxy is to abstain on the resolution	2,709,757
If the resolution is decided on a poll the total number of votes cast on the poll:	
- in favour of the resolution	1,127,090,150
- against the resolution	30,593,734
- abstaining on the resolution	2,788,499

Resolution 6 Adoption of the Remuneration Report for the year ended 30 June 2006	
The motion was carried as an ordinary resolution on a poll.	
Total number of proxy votes exercisable by all proxies validly appointed	1,154,211,418
Total number of proxy votes in respect of which the appointments specified that:	
- the proxy is to vote for the resolution	1,105,415,268
- the proxy is to vote against the resolution	24,921,756
- the proxy may vote at the proxy's discretion	23,874,394
- the proxy is to abstain on the resolution	3,795,614
If the resolution is decided on a poll the total number of votes cast on the poll:	
- in favour of the resolution	1,131,880,407
- against the resolution	25,056,746
- abstaining on the resolution	3,855,121

Yours faithfully

Robert Dudfield
Assistant Company Secretary