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Fair pay?

EXECUTIVE REMUNERATION

FACTORS INFLUENCING CONSULTANTS' ADVICE

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This publication was produced with the help of a grant from ICAEW's charitable trusts. These trusts support educational projects in accountancy and related subjects. All research reports and briefings published under ICAEW's charitable trusts imprint are independently refereed before publication.

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ISBN 978-1-78363-927-4

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1 Introduction

Executive pay in listed companies is determined by remuneration committees (RemCos) comprising independent non-executive directors (NEDs). NEDs are required to make very complex and high-profile remuneration decisions, but their knowledge on these matters is often limited. Because of this, they are almost always advised by one or more firms of executive remuneration consultants.

In this report, we investigate the factors that influence the advice executive remuneration consultants provide to their clients. We present insights extracted from face-to-face interviews with consultants at partner/director level involved in advising FTSE350 companies on executive pay. In all, 20 consultants were interviewed, representing nine different consulting firms based in the UK, ranging from global consultancies through to small practices.[1] The interviews were conducted using a structured technique known as repertory grid, combined with semi-structured interviewing.

> 'I think a good remuneration consultant has to help the RemCo consider the right questions. Of course there's a technical competence issue which I'll take as a given, you've got to know the rules, you've got to know how to put together an [incentive plan], but a good remuneration consultant will firstly, I think, encourage the remuneration committee and the company to think about, whilst existing within the governance environment how can they make pay work effectively for their organisation?'

1 We are very grateful to all of the consultants and firms who gave their time to participate in this research.

2 Executive pay consultants and their work

There is no legal requirement for remuneration committees to use consultants, but it is common practice to do so, for two main reasons. Firstly, NEDs are rarely experts in this complex area. Secondly, external advice is perceived to legitimise their decisions, which otherwise could be seen as biased in favour of board colleagues.

Executive pay consultants are employed for a variety of tasks:

- Designing pay policies, generic or bespoke.
- Suggesting appropriate comparable companies for benchmarking the quantum and structure of executive pay, and providing the detailed information to support such comparisons.
- Advising on the impact of changes in regulation, current trends in pay, and on the attitudes of investing institutions and proxy advisory bodies.
- Modelling the implications of proposed remuneration schemes.
- Calculating the level of variable pay earned, based on the plan requirements (for example, determining the Total Shareholder Return over the plan period).
- Advising on pensions, or on the taxation implications of schemes.
- Advising on liaison with the institutional shareholders, including preparing documents and attending meetings.
- Advising on the content and presentation of the Directors’ Remuneration Report.
- Providing input into the agenda for remuneration committee meetings, and often attending these meetings.

A company may have a main consultant for advice, but use several others to provide supplementary data. Alternatively, they might split the advice work between several consulting firms, or use consultants in a transactional way, just for assistance with particular elements of executive pay. There is no formal qualification for anyone becoming an executive pay consultant, and there are many firms and individuals in the market.

It is important to note that the role of the consultant is to provide information and advice; the pay decision itself is the responsibility of the remuneration committee.

The key players in the UK industry are mostly members of the Remuneration Consultants Group (RCG), formed in 2009, which 'represents the overwhelming majority of executive remuneration consultancy firms advising UK listed companies'. After the crash, executive pay consultants were criticised for their role in helping design pay plans that raised executive remuneration, and were highly geared towards incentive pay. The argument was made that consultants were too close to management, and there was a lack of independence in their work. In the UK, the formation of the RCG was one method used by consultants to address this issue and improve their standing. The RCG produces a voluntary Code of Conduct which sets out how consultants should behave in terms of acquiring clients, conducting their assignments, and avoiding conflicts of interest. The Code states the role of the consultant.

> ‘… to provide advice and information which they believe to be appropriate and in the best interests of the company. Their input should take fully into account good practice and promote the UK Corporate Governance Code principle that pay should be designed to promote the long-term success of the company. The purpose of [consultants'] input is to support robust and informed decision making by the company on remuneration matters.’

The Code is seen by the RCG members as a 'useful framework' for their client relationships.

3 *Key findings*

3.1 Advice triggers

Very few interviewees explicitly discussed why the consulting work was undertaken. However, some commented that a fundamental change in business strategy or in the leadership team was often the trigger of changes in the remuneration plan.

> ‘Every time a chief executive comes in, he or she, quite naturally, feels obliged to change things and challenge things. And that’s their job, that’s okay. So you can work on a remuneration strategy with the committee and develop something that’s absolutely right for the business, and then a chief executive comes in and absolutely runs through it. He may change things, may not, may have something that they just really like and bring with them, and want to bang it in, a certain type of plan. Or may bide their time and wait to see whether they agree that what’s in place fits the business.’

3.2 Organisational context

As shown by previous research, consultants’ advice was influenced by the company’s industry, business strategy and stage in its lifecycle. Additionally, consultants highlighted the impact of business complexity and volatility. In companies where performance is highly volatile, remuneration plans have to accommodate changes over an economic cycle, and so will be designed differently from those in more stable environments.

Organisational size was an influence on pay which, given the predominance of benchmarking as a method of determining pay, was expected. The degree of internationalisation was another important factor. It is intuitively obvious that an international or global company will pay more attention to international pay norms than will one whose board is purely UK-based.

The type of ownership was highly influential on the pay-setting process and on the type of plans introduced. The organisations discussed by the consultants were mostly FTSE100 and FTSE350 companies, but also included private equity or private ownership, UK subsidiaries of overseas businesses, and some more unusual structures such as member organisations. Remuneration committees in listed companies, accountable to institutional shareholders, were more constrained by ‘best practice’ than were those that were private, or that had a substantial blockholder.

The consultants also had to work within the context of the company’s culture. In part this would reflect the nationality and ownership. But organisational cultures can differ in many ways. For example, in some companies the executives were interested primarily in what they were going to be paid, whereas in others a more balanced view was taken of all aspects of reward including long-term prospects, training policies and working conditions. Thus, two companies of the same size and in the same industry could end up with different pay structures due to their different cultures.

The public profile of the client company was another important determinant of the pay schemes suggested and implemented. A high-profile company such as a major retailer or large utility has a public image to maintain, and any controversy over its pay policies could backfire on the business commercially. If nothing else, any disputes would be played out in the media, so reputational risk is an issue to consider. Such companies tend to follow the accepted norms for pay rather than exploring novel approaches.

One final influence on the consultants' advice is far more prosaic – the money available for their fees. Consultants' fees are time-based, not related to the level of pay. As with most types of consultancy, there is an hourly rate. More complex pay schemes involve a greater level of design work, and therefore will cost more. Some remuneration committees have budgetary authority to employ consultants themselves; however, in others the work commissioned is constrained by budgetary limits – either because of the company's financial position, or because the executives choose not to release the monies. Examples were given where the work commissioned had been limited by the budget, leading sometimes to more generic advice than might be ideal. Also, work was sometimes done, but not paid for.

> ‘ … our appointment was organised by the financial controller on behalf of the remuneration committee. … But although she's the secretary of the remuneration committee, she is nevertheless clearly in the management hierarchy and management [have a] strong view on what they want. And it has caused some complications, like getting paid on time and everything and arguments about not getting paid for the advice that we give. ’

3.3 Institutional context

Regulation is an important factor influencing consultants' pay advice. For example, pay policies and practices in banks and other financial institutions have to comply with additional regulation. This influences and sometimes constrains how the consultant works. It was notable that some of the consultants had been working with the regulator to help interpret the EU regulations on bankers' bonuses, which, of course, had immediate relevance to their clients.

Another important influence was the country of origin of the company's key shareholders and/or managers. Examples were given of companies with blockholder non-UK ownership which had chosen not to follow UK norms.[2]

> ‘ … we are working with individuals who haven't grown up with the UK corporate governance environment, the roles and expectations of investors, the role of the remuneration committee, typically companies which have been owned by one or two individuals. ’

2 The UK's 'comply or explain' governance regime relies a lot on the collective power of the shareholders over directors; if there is a significant blockholder, this power can be diminished.

3.4 Remuneration committee

We asked the consultants what made a 'good' or a 'bad' remuneration committee. It became apparent that one of the most important factors was the quality of chairmanship of the committee, which included the personality of the chair, their competence in dealing with personal relationships and their political capital within the company. Political capital is important in such a delicate role; consultants were sensitive to the difficulties sometimes faced.

> ‘Quite often they give the job of chairing the committee to the person that's most recently joined the board, which I find kind of rather bizarre because it's such a political position and they don't know the politics … and they've got no background in the stuff either, so there you go, so not a great job for them.’

However, although the chair is the strongest influence, the committee is not just its chair: the calibre of the whole committee is relevant. As well as ensuring that the NEDs are competent and committed, the chair must involve the whole committee in decisions, and encourage participation and debate. This in turn means managing the agenda to make sufficient time available, and making sure that the committee has been briefed.

> ‘I always worry when I hear a phrase from a remuneration committee member like, 'well chairman, you're much closer to this so I'll go with your judgement', sort of thing. So I think the successful involvement of an entire remuneration committee in the work of a committee is something that takes a bit of skill on behalf of the chair.’

Characteristics of a good remuneration committee included: intellectual capability, good commercial judgement, and the competence to understand the various parameters and complexities. Their level of engagement in the pay-setting process was very relevant, with committee members doing their homework before meetings. Independence of thought was important, being robust in standing up to management when required. A good remuneration committee would ask searching questions of management and the consultant, and actively enter into the discussion. It would also ensure that the NEDs had time for independent discussion, without executives present.

> ‘So a good remuneration committee is ultimately one that is prepared to make independent decisions for the good of the business even if management doesn't like them. I think the ultimate test of a good RemCo is, are they prepared to stand up to management?’

The consultants did not necessarily equate a 'good' remuneration committee with an executive pay scheme that fitted UK corporate governance norms. They took the view that a remuneration committee should act appropriately for the business: if there were good reasons for a company to adopt a novel or rich structure, then the committee should be prepared to defend this.

3.5 Relationships

Another key influence was the nature of the consultants' relationship with the remuneration committee. Some relationships are inclusive, and others are very transactional. In some instances, the same consultant had advised the company's remuneration committee for many years and had more corporate memory than the NEDs. In other cases, they or their firm were relatively new to the client. In some companies, the consultant would attend every remuneration committee meeting as a matter of course; in others they may attend only once a year.

The number of remuneration committee meetings per year can vary considerably. Although having very few meetings could indicate that executive pay is not being taken seriously, it could also mean that there is not much changing, in either the industry, the company or the executive. Likewise, having a very large number of meetings each year could be an indication of flux, or could possibly suggest a committee that has difficulty making decisions.

The nature of the committee-consultant relationship was not seen as a signifier of the quality of the remuneration committee.

> ‘ I think it is right that the remuneration committee appoints a consultant and has rights of access to the consultant, but for me it's up to the remuneration committee to determine how they want to be independent, and there are different ways of doing it. So … I've got clients where the remuneration committee chair hardly ever wants to see me, wants me just to work with management as they develop their proposals, but this is one of the most independent RemCos I've ever worked with, and the RemCo chair, if they need to, will call me up and knows that we'll have a conversation. ’

3.6 Internal HR advisers

Almost every remuneration committee has some internal support from a Human Resources (HR) department or a dedicated executive compensation or reward function. One insight from this research, not captured in any other academic work, was the influence of these internal HR advisers, and the impact on the process of their behaviour and the quality of their advice.

The quality of the internal HR advisers was influenced by the characteristics of the person leading the HR department. It was evidenced in the breadth of their thinking around executive pay, and also in basic matters like their organisational skills and ability to produce the required data within a reasonable timespan.

One area of process over which the internal adviser was stated to have influence was the selection of the remuneration consultant, and it was generally thought that they had their favourites, with whom they had worked before (as, indeed, did the remuneration committee chairs). Even if the remuneration committee conducted a beauty parade, the consultants stated that often the HR adviser played a critical role in influencing which firms were asked to participate. The HR adviser is a member of the management team, and the fact that they have close links to the CEO was mentioned as a factor influencing the remuneration-setting process, not always in a useful way.

> ‘HR directors, their boss is the chief executive. And if the chief executive is – not in all cases – in this particular case the chief executive was not aggressive on pay, but in almost all the other cases [discussed] they are. And because of that, their job is there to sort of basically provide for the chief executive. That sounds blunt but it boils down to that’s what they do. And when you are there to be an adviser primarily to the committee, and therefore that’s your ultimate boss, you can come into conflict. And that’s essentially the source of the tension.’

Indeed, in one case the internal adviser had a personal interest in the outcome of the work.

> ‘The first [scheme was for the top 14 people in the company] and then the next one was the next 20. So it’s altogether 35, which sounds quite a lot but the top 14 were getting about seven times more, on average, than the next lot. And then you ran your eye down the job titles and blow me down, the HR Director is in the top 14! And I’m thinking, well if you’re comparing with the other jobs that should have … I would compare him to, he shouldn’t be, you should be in with the lesser-paid plebs. And on target, the reward, just from that scheme itself, was meant to be £11m. So it mattered quite a bit to them.’

The consultant quoted above went on to speak about HR advisers more broadly.

> ‘What is the role of the HR director, head of Comp and Ben [Compensation and Benefits]? And it’s quite shocking how some of these big companies have really staffed up their Comp and Ben functions. Again, the same sort of thing, cost cutting, conscientious CEO, you should have had it in for them. No? Well why’s that then? Because pay at the top’s really important. Wonder why that is? Well, it’s his own pay.’

In discussing the HR internal advisers, an initial assumption of the researcher was that if the internal advisers were not very sophisticated, the consultant would be asked to do more work, and thus be able to charge more. Although this was sometimes the case, the opposite also occurred. Sometimes, a naïve internal adviser does not realise the complexities involved, and so is reluctant to pay for advice, whereas a sophisticated one might wish to explore several different alternatives, and will appreciate the consultant’s input. Some consultants mentioned the professional satisfaction of working with these high-calibre individuals, whether or not fees were high.

3.7 CEO and executives

The degree of involvement of the CEO in the remuneration-setting process was also perceived to be an influence. Although no CEO should have direct input into his/her own remuneration package, it is reasonable for the CEO and CFO to be involved in the remuneration-setting process, as pay has such a close link to strategy and performance. The CEO will often attend remuneration committee meetings for certain points, although not necessarily for the whole meeting.

However, this can lead to tensions, as working relationships need to be established. Boundaries must be set, to ensure that, while taking account of the CEO's views, the remuneration committee is maintaining independence and control over the outcomes. This relates back to the qualities of a good remuneration committee.

> ‘In my view what works best is involving the chief executive. The risk is that you make him feel a bit like a hired hand if you sort of wheel him in and wheel him out. Pay, after all, is affecting the senior team, the senior team report to him, so I think, if I were the chairman of the remuneration committee, I would want the input of the chief executive. The risk then is that he's/she's there there too much of the time and so you have to have a robust chairman of RemCo who's not afraid to say ‘that's absolutely fantastic, now bugger off and go and run the company'.’

The client companies could be rated by the extent to which the design process was driven by the remuneration committee as opposed to just reviewed by it. However, regardless of the approach taken by the committee, the consultant will need to work with management. In order to design a remuneration plan that is relevant to the company's strategy and circumstances, the consultant needs to understand those clearly. This information is not going to come from the remuneration committee, as a committee of non-executives will not possess the necessary detail. Thus, the first stages of their assignment will involve discussions with the principle executives to obtain the necessary information about the business and its challenges.

This means that in practice management will almost always have input into the framing of the executive pay. This will be the case whether the consultant is formally employed to advise the remuneration committee or the management. A matter related to this, and one that is rarely covered in academic research was the influence on pay schemes of the personality of the management, in particular the CEO. Some CEOs were described as ‘aggressive' or ‘greedy' (not the same thing). This type of CEO behaviour created tensions between the CEO and the remuneration committee as well as tensions between the CEO and the consultant.

> ‘[Aggressive] means that you care very much what you get compared to your peers. It means that you're prepared to have quite heated … at times arguments with your committee over what you think is reasonable. It means that you might be prepared to risk relationships with some people on those committees to get your own way. You might go off and do your own research, look up … turn up to a committee meeting with your own sort of set of annual reports and refer to certain companies to bolster your case to get more money. You might be prepared to have arguments with your shareholders and risk that to get your own way.’

Some consultants expressed a general feeling that the trend over time had been for management to become more ‘pushy' about their pay, sometimes encouraged by firms of consultants using peer pay statistics as a marketing device, with unsolicited mailings to executives of other consultants' client companies, suggesting the executives might be underpaid compared to ‘the market'. Management greed or aggression could be shown in different ways. In some companies, a lot of attention was paid to peer groups against which pay was benchmarked, with management arguing for certain treatments which would favour them. In many cases, there was clear evidence of what appeared to be personal greed.

‘ And the case in point actually with that company, it’s had an absolutely stonking year, a really good year… but the earnings of the chief executive have actually gone down … He was absolutely incandescent with rage when he saw that, even though, of course, his shares are worth hugely more than they were this time last year. It seems to him, unjust. I can’t remember what the number is but the number is into millions, just without even counting what’s vested from shares. But he feels that that is unfair because it’s lower than last year and he has performed better than last year. ’

Another angle was that of pay-as-feedback, where management were anxious about the symbolic level of their pay rather than its actual amount.

‘ Because the management actually have most of the cards, and they emotionally want that money. And I don’t just mean in a kind of egregious, greedy, self-interest way. They want it because it’s part of the feedback about how well they’re doing. There are whole multiple layers of why pay is important, and some of it is about motivation, and some of it’s about reward, some of it’s about money, some of it’s about feedback. There’s a lot of stuff swirling around the way executive pay is dealt with. ’

The consultants interviewed confirmed that in some cases, to put it bluntly, management who were aggressive in negotiating pay could come away with richer schemes, as the quote below reflects.

‘ If you have got a very loud, vociferous on pay chief executive … who’s also very persistent, it’s quite hard for the remuneration committee not to be influenced by that. Or not to be worried actually, especially if it’s a high-performing person, that their bluff will be called. Or that they’ve got it wrong. ’

However, this is not always the case as some remuneration committees were prepared to stand up to them. The following quote illustrates the sensitivities of the matter.

‘ And sometimes the remuneration adviser can be used to defuse a situation where the remuneration committee chair doesn’t really want to have a stand up row with the chief executive. And will use us to provide evidence that the chief executive is being unreasonable, or indeed in one case I was once asked to go and tell a chief executive to shut up. ’

It is also important to note that the factor of aggressive management was not mentioned universally, and also that not all management teams were considered to behave in this way. Several interviewees described management teams as ‘mature and balanced’ or ‘not greedy’.

‘ Management don’t care very much … well, are not aggressive on pay. They’re not hugely driven by it. ’

Another factor relating to the CEO and to the management in general that was perceived to be important in influencing pay consultants’ advice was the tenure of the executives, and their perceived abilities. If the management team had great ability or a specific and valuable talent, retention was an issue, and the remuneration plan would reflect this. Likewise, in an instance where the remuneration committee considered the management to be 'pretty average' the plan was not as generous.

3.8 Remuneration consultant

Of all the consultants interviewed, only one had actually intended to become an executive pay consultant, and had tailored his career choices to this end. For many of the others, the role 'executive pay consultant' had not existed when they started their careers, and they had entered the profession from a variety of other disciplines including accountancy and tax, HR, law, statistics or actuarial work, and strategy.

The original background of the individuals did seem to be an influence in some of the conversations, but there was no obvious grouping such that, for example, all the strategists approached their role in a different way to the tax experts. Likewise, where several consultants from one firm were interviewed, their accounts of how they worked were not always uniform, and the types of plan they devised seemed often to reflect the consultant's and client's preferences rather than any firm's style.

However, of the nine firms represented in the interviews, certain firms had reputations for a common house-style, for example for taking a traditional, orthodox approach, or being very creative, or tending to produce 'richer' schemes for management. In discussions, the consultants talked about their own firms and also those of rivals, and whereas any individual firm might not be comfortable with others' description of it, there was a consistency in these views.

The quality of the consultant was also highlighted. In almost every interview we asked the question, 'what does 'good' look like?' in relation to a consultant or consultancy assignment. For some aspects of this, answers varied along the whole spectrum from, '['good' is] if you keep the appointment' right the way through to 'I don't think getting fired is indicative of doing a bad job'. However, in the round, there was a lot of consensus that 'good' meant ending up with a plan that was right for the company and its strategy, and one that satisfied 'all the parties' (management, remuneration committee and investors).

> ‘ What does good look like? To me good looks like where the committee has been able to do what it thinks is right in a way which has taken management with them and hasn't created angst from an external perspective. I think that's the Holy Grail. In some cases, it could be where the committee just don't, if there's a technical point don't really understand it, it's helping them understand what this is or why management are proposing something. In some cases, it's actually getting, if management come up with a barkingly mad idea, then being able to shut that down in a way which is seen as constructive; in some cases not constructive but still shutting it down, I think is still, to me that's still fine. It's not purely about just saying 'no', it's about making sure if the committee thinks it's the right thing to do then they do it with their eyes open and they know what the reaction's going to be. ’

A couple of consultants also pointed out that that it is not good if any party is *too* satisfied – there should always be an element of 'healthy tension'. Part of the consultant's job was seen to be forming good relationships with all of the parties and, in some cases, facilitating the meetings to ensure an acceptable outcome. Those good relationships also helped the consultant in carrying out the assignment, both by expediting access to the necessary information, and also by making it easier to propose radical ideas, knowing that the relationship would not be damaged by them.

Another common comment was that there should be no unexpected surprises. Sometimes a scheme might cause controversy with the regulator or media, but the consultant had done a good job if s/he had warned the remuneration committee in advance that this might happen, and why, and provided them with advice on how to deal with the fallout. The consultant's role is to advise, and if the remuneration committee makes an informed decision to ignore that advice, then that is a valid choice.

3.9 Consultant independence

The academic literature on remuneration consultants largely focuses on their potential for conflicts of interest and, as mentioned earlier, several post-crash investigations also concerned themselves with this. Indeed, one interviewee commented,

> ‘People seem to be more worried about independence than they are about the quality of the advice.’

We discussed independence and conflicts of interest with every interviewee. Not surprisingly, they all denied that they had any conflict of interest, either personally or within their firm, and all argued that their advice was the same regardless of the nature of the client, be it the remuneration committee or the management. Various reasons were given, such as personal integrity; the importance of the independence to consultancy's brand[3]; and each firm's code of conduct, and the Remuneration Consultants Code. For the multi-business consultancies, potentially providing several different services to a company, one mechanism stated to indicate independence was that the consultant providing the executive pay services did not also take the role of client manager. Likewise, most of the interviewees said that there was no mechanism of reward for cross-selling within the consultancies (although in a couple of instances it was noted that it did help career prospects).

For most of the assignments discussed, the consultant had been employed by the committee. However, there were some where management (ie, 'the company') was the driver, and a few where the narrative was rather confused. (This partly relates to the matter discussed earlier, that management provides a lot of the relevant information, so the consultant has to work with both parties.) Some of the consultants did advise both management and the remuneration committee, but argued strongly that this was clearly stated upfront and did not cause any conflict. Having said this, a couple of consultants quoted instances of turning work down because they (or their firm) perceived there to be a potential conflict of interest.

3 Although it is worth noting that this argument has been used by auditors and credit rating agencies as well, and has not always been observed true in practice in these cases.

The main difference between working with management and working with the remuneration committee was set out neatly by one consultant, as follows.

> ‘A RemCo typically gets brought propositions to it and either asks for further and better particulars or approves it or says no. Work for a RemCo is frequently reactive to the data that is being provided. Work for the company is putting together everything that is taken to RemCo for their consideration. So detailed benchmarking isn't done by RemCo. Detailed benchmarking is done by management with their advisers and then the analyses are shown to RemCo and RemCo's advisers to say this is what we have done by the way… and then I can sort of do some checking and auditing of that. So it's quite a different proposition.’

This consultant was talking about instances where two firms were employed, one by each party, but similar sentiments were expressed by other interviewees in single-consultancy situations.[4]

Several consultants gave examples of having been fired because their advice had been against management's wishes, which both suggests an element of independence and implies that in some instances there is pressure to nudge their advice toward higher pay. However, two commented on the difficulty for consultants of not being independent: executive pay is very visible, to shareholders and outsiders, and they said that it would be difficult to put in a scheme slanted heavily in favour of management.

> ‘Everything that you design has got to go through RemCo and to shareholders. And so you'd be a real idiot if you designed something that was suitable only for management and didn't support shareholders. You'd be crazy.’

The independence of the consultant's advice is only one element of the process. A couple of consultants commented that the quality of advice and the quality of decision-making are more significant determinants of pay.

> ‘I think one of the weaknesses of the way that we think about governance and independence is that we focus a lot on forms and structures which don't always have a very direct correlation with the independence of the RemCo. … a strong independently-minded remuneration committee, it doesn't matter where the advice is routed and how it works. … actually there's not enough focus, I think, on the behaviour in the board.’

However, it is worth pointing out that although each individual/firm was stated to be independent, several made slightly derogatory comments about the independence or otherwise of some of their competitors. One interviewee acknowledged that not all of the advisers were completely independent, and that some may have had their judgement skewed.

4 One point raised by the interviewer was how the individuals and firms dealt with situations where there were different firms advising management and the remuneration committee. This was not really seen as a problem, and they generally worked quite well together. Two sets of consultants might be used if they were specialists in different areas, or if the client perceived a need to demonstrate independence.

> ‘ And looking around the field of consultants ... I think some of them have sided too much with management. If somebody says, one of my [drivers] as a remuneration consultant is to make sure that managers get as much as they can, that would worry me. ’

Another consultant ended his comments by acknowledging the issue more generally.

> ‘ Having said all of that there is a massive conflict of interest in our industry that nobody talks about, which is it’s always easier to give high advice than low advice. ’

Related to the topic of consultant independence, it is worth noting that during the course of the interviews several expressed their personal views, sometimes quite strongly, that the level of executive pay overall was too high.

> ‘ I think this is the biggest weakness in the whole system, it’s the ability of executive management to commission, take, shape and propose things to the RemCo and the RemCo is sitting there like a bloody goalie facing penalties. It is not surprising that they don’t stop that money. ’

Furthermore, several of the consultants gave examples, in some cases quite detailed, of instances where they had specifically advised the remuneration committee that what management were seeking was too rich a package.

> ‘ I spend far more time keeping a lid on pay than I do on pushing it up. ’

> ‘ Well I have to say that when my clients have departed from my advice it’s more likely been that they’ve been more generous rather than less generous. ’

Indeed, as mentioned earlier there were examples of where consultants had lost clients due to giving advice that management were overpaid, or were asking too much.

> ‘ You are sometimes used as the consultant by an emotionally immature RemCo as the harbinger of bad news … I’ve been fired for it, which is fair enough, it’s part of the job. ’

One reason given for the continued high level of pay was the ‘first mover disadvantage’ for any company which unilaterally reduced its executive pay. This point was expressed by a couple of consultants, in different firms.

3.10 Remuneration schemes

Some of the consultants discussed why some companies have 'extreme tailoring' in their plans whereas others adopt 'plain vanilla' schemes.

Given that there is no 'right' answer to executive pay, the default situation for many organisations is to adopt a scheme that is similar to others. This has the triple advantages of being relatively simple, the advice being relatively cheap, and the scheme almost certainly being seen as legitimate by the investors.

> ‘But clearly it makes the RemCo job easier if you just say, okay, if we have the median of everything, and if we have a plan design which ticks the boxes and is like our peer companies, how can somebody complain? How can somebody complain? Or they can complain … well, they don't complain but what they can't see, or can't not see if you like, is how you as a company are the same or different from a business fundamentals and strategic perspective and therefore what they can't really see is this link between pay and strategy and whether it's working or whether it's not working.’

However, several of the consultants commented in detail on how most of their work involved tailoring schemes to the individual circumstances of their clients using, for example, non-traditional performance measures, or an unusual equity structure. Of interest to us here is not the schemes themselves, but the reasons that they were considered necessary, and how they were received. Part of this was about the consultants themselves: some did not mention instances where they had used extreme tailoring, whereas others had adopted it in most of the clients they discussed. However, it also reflected which parties were commissioning the work, and who was most involved: the general feeling was that remuneration committee would be more conservative than HR advisers.

> ‘I think you're more likely to get innovation if RemCo are not originating things. … I think in general if you've got HR involved they're more confident being edgy. Partly because management will tend to prefer stuff that aligns to organisation rather than copy/paste, whereas RemCo will tend to be risk-averse and they perceive – and I think now incorrectly – that copy/paste is less risky for them.’

The points raised earlier about fee pressure constraining the amount of work done is also relevant to the originality of the scheme devised.

Conclusion

This research has identified factors influencing executive compensation consultants' advice that have not previously been recognised outside the bounds of the consultants' world. We have extended existing knowledge by showing the influence of matters such as organisational politics, culture, nationality, and management characteristics, which can all lead to very different pay policies in organisations that are superficially similar.

We have shown the importance of having a 'good' remuneration committee, and identified some of the important features of such a committee and its chair, highlighting their need for engagement as well as independence of mind. We have also drawn attention to the significant role played by the internal HR adviser, and shown how this member of the management team, often ignored in governance research, can be pivotal in steering the pay of their executive colleagues. This, together with our findings about management greed, should remind remuneration committees and boards that they need to become more sensitised to the drivers of behaviour of those around them. Corporate governance is yet again demonstrated to be more about board culture and attitudes than it is about the structures of independence that are the focus of many commentators and regulators.

In the current climate, where complexity of executive pay packages is the norm, most remuneration committees need to rely on experienced consultants for advice, and this often shapes the pay structures ultimately implemented. The individuals we interviewed all gave examples of how advice was tailored (to a greater or lesser extent) to reflect the situations of their clients, and discussed how clients' circumstances can differ considerably. However, our research also sheds light on the very different ways executive pay consultants can approach their work, and some of the influences driving their recommendations. Although many client companies will be sophisticated purchasers of consultancy services, one implication is that remuneration committees should take the time to understand and appreciate the characteristics and preferences of the individuals and firms advising them.

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