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**PROMOTING HIGHEST PROFESSIONAL STANDARDS IN UK REMUNERATION  
COMMITTEE ADVISORY SERVICES**

**Volume 2 of 2**

**(Appendices and Bibliography)**

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**Appendix 1**

**Biographical Note**

## Appendix 1: Biographical Note

In December 2010 the author retired as a 'veteran' ExecRemConsultant – by then he had over 25 years' relevant experience, initially two years with a global ABC firm, subsequently five years with one of the Big Four and finishing with over 18 years at another global ABC organisation.

The relevant ExecRemConsulting experience included advising RemCos in a range of business sectors, but with a particular focus on financial services (eg., banks, insurance companies and fund management organisations). Clients comprised publicly listed companies, large private companies and 'family offices' - in the UK, Continental Europe and USA, plus Middle/Far East.

Between 1985 and the end of 2010, the author lived through the introduction and development of RemCos around the world, with the attendant growth in the provision of specialist RemCoAdvisory Services. Accordingly, he participated in the UK's 'early days' of such services and through the period when it became invariable practice for publicly listed companies to operate RemCos. In essence, from remuneration planning advice being very tax-driven (eg., Government tax-favoured share plans and profit-related pay schemes) to the time when establishing RemCos became standard practice and, indeed, an integral part of companies' strategic human resource management.

The author can claim to understand how ExecRemConsultants, CoyExecRemSpecialists and RemCoChairs/Members actually carry out their roles in practice. Indeed, he probably attended in total over his career more RemCo meetings than the majority of RemCoChairs/Members - as he advised numerous RemCos over many years, whereas most RemCoChairs/Members probably sit on one or two RemCos for just the latter part of their working life.

Such experience provides an ‘insider’s perspective’ on any examination of the working relationships between ExecRemConsultants, CoyExecRemSpecialists and RemCos. He lived with the COI/‘independence’ issues involved in providing RemCoAdvisory Services from an ABC or Big Four firm that offers ‘Other Services’ to client companies (ie., professional services apart from those concerned solely with advising RemCo). Additionally, he brings a perspective on ‘professional standards’ of someone who is not only a currently practising barrister (ie., BSB regulated) but also served, early in his career, as a DPP Legal Advisor.

The author’s consulting approach was research-based (along the same lines as Edmans and Gosling – see Volume 1 (n 3 & n 4), respectively, for details), bringing to bear both academic/technical and practitioner insights that promote innovative, robust and ‘real-world effective’ advice – aimed at enabling RemCos to make their pay determination decisions on a fully informed basis.

On the ‘technical’ front, in 2001-2002 the author had been part of his ABC firm’s team of Actuaries and ExecRemConsultants that developed and subsequently implemented in RemCoAdvisory appointments a methodology using extensions to the Black-Scholes formula to accommodate individual features when valuing a ‘portfolio’ of share incentives (LTIPs/ performance shares, share options and restricted shares).

His particular interest in combining ‘academic’ and ‘practitioner’ aspects had been triggered in 2006 by three of his ABC firm’s ExecRemConsultants (including himself), collaborating with Edinburgh University Business School on a qualitative study based on 22 semi-structured ‘elite interviews’ of RemCoChairs/Members. (see Volume 1 (n 5) for details).

In January 2011, the author returned to practising at the Bar, which remains his current role. As well as undertaking a broad range of Criminal Defence, on both legally aided and privately funded bases, he has a particular interest in 'FCA Defence' - ie., representing financial services clients who are the subject of ongoing FCA criminal / regulatory investigation or proceedings. He has served a three year part-time voluntary appointment as a CIPD Disciplinary Panel Chair (2013 – 2016).

Further details of the author's career history are contained in the biographical information he circulated to prospective RIP participants (see Appendix 5.1.).

## **Appendix 2**

### **Summary of Research Interview Findings (SRIF)**

**[For ease of reference the SRIF uses the same sub-coding and numeration categorisation adopted in Chapter 4 of this thesis]**

## Appendix 2: Summary of Research Interview Findings

### **4.3.1. RITG1:SQ1 – ‘How do you consider the provision of UK RemCo advisory services is currently working (including in respect of the pay determination process and pay outcomes) [Sub-coding: ‘UKRemCoAdvisoryScene’]?’**

- UKRemCoAdvisoryScene: ‘I think it works well in the sense that there are some good people in ExecRemConsultancy services and that they are doing good research and bringing intellectual thoughts as to how things can be managed by RemCos’ (CoyExecRemSpecialist: 3)
- UKRemCoAdvisoryScene: ‘I suspect that because of the regulatory environment and maybe the lack of willingness of RemCos to be seen standing out and doing something different because of the reviews that they’ll get, it probably is not working as well underneath as I feel it should be able to’ (CoyExecRemSpecialist: 3)
- UKRemCoAdvisoryScene: ‘Increasingly focused in relatively few individuals from ExecRemConsultants who are seen as the people that someone wants to consult with. I’m not talking about very large numbers of lead ExecRemConsultants, I think, in this country’ (CoyExecRemSpecialist: 3)
- UKRemCoAdvisoryScene: ‘I think it works best, as I said, if that tripartite relationship exists and works fluently’ (ExecRemConsultant: 1)

- UKRemCoAdvisoryScene: 'RemCos appoint ExecRemConsultants for, well, maybe a number of reasons, but for one of two reasons, actually. Perhaps an oversimplification, but I think there's the RemCo that appoints an ExecRemConsultant because it wants an insurance policy, and there's the RemCo that appoints a consultant because it genuinely wants the advice and wants to enter into a relationship with a professional advisor, who understands the business and can give the RemCo sound, intelligent and objective advice on remuneration' (ExecRemConsultant: 1)
- UKRemCoAdvisoryScene: 'At a high level I would say it's quite good. I think when you dig into that it becomes quite different by company and depending on the arrangements or how the different organisations work' (CoyExecRemSpecialist: 2)
- UKRemCoAdvisoryScene: 'You are looking for sensible business advice in the way you would get advice from one of the Big Four accountants if you are doing an M&A project or something. You're getting, as you say, business advice. No one is asking for a RemCo's appointed ExecRemConsultants to give you a report on the wealth of experience in executive compensation. That's not the role currently as we set it up' (CoyExecRemSpecialist: 2)
- UKRemCoAdvisoryScene: 'From a relationship and outcome point of view, I think that it's a bit more muddy because I think here it goes back to you being paid by...I've seen a few times where the RemCo's appointed ExecRemConsultant will push back and not declare a number that's expected in the room and that's a very difficult conversation and in most cases it seemed to me that the will of the CEO prevailed' (CoyExecRemSpecialist: 1)

- UKRemCoAdvisoryScene: 'On the selection process, there is generally a beauty parade, and the same people turn up on these different beauty parades, and there is a selection at the end, based on who do we like and who do we know, rather than who's the best person to advise us. A very, very small number of advisors are being selected by a smaller number of NEDs. And that group is getting smaller and smaller all the time. So it is a problem, and it's a big issue' (CoyExecRemSpecialist: 4)
- UKRemCoAdvisoryScene: 'There's this ratcheting issue. That people who are making pay decisions are part of the dataset themselves, because they're executive directors in other companies. It is usually the dataset that changes' (CoyExecRemSpecialist: 4)
- UKRemCoAdvisoryScene: 'I often get called in to sit below the appointed ExecRemConsultant, almost to give a kind of second opinion. On a non-independent basis. The ExecRemConsultant is more focused on what you pay, benchmarked against your peers. Naturally, that's going to lead to pay inflation, as opposed to saying how do you actually structure your pay so that it helps you achieve your growth strategy regardless of what other people are doing?' (City Lawyer: 3)
- UKRemCoAdvisoryScene: 'It is true that there were lots more personalities previously in ExecRemConsultancy, but I think part of the reason that has changed is that there was a lot of mystery about what was RemCo advice in the early to mid-1990s and therefore it was driven by individuals and personalities. In the early 90s there were people doing the value-based analysis stuff and shareholder analysis' (NED: 1)
- UKRemCoAdvisoryScene: 'I think RemCo Chairs have upped their game over the last ten years or so' (ROO: 4)

- UKRemCoAdvisoryScene: 'The RemCo Chair now has to sign off this letter in the DRR, and justify and explain actions taken during the year in a way that maybe they weren't doing so proactively five or six years ago' (ROO: 4)
- UKRemCoAdvisoryScene: 'We wouldn't typically feed back views or questions direct to the ExecRemConsultant, that's why it is important to speak to the RemCo Chair. Some investors will say: "Yes we'll support that, no we won't, and this is what you need to do to change it." That's not what we do' (ROO: 4)
- UKRemCoAdvisoryScene: 'A little less playing of the games like that would be appreciated I think' [referring to some ExecRemConsultants sugaring the pill for an 'aggressive' salary increase/raised bonus quantum, by bringing in other features which they know investors will like to see; for example, tightening up share ownership requirements] (ROO:4)
- UKRemCoAdvisoryScene: 'Accounting firms - coming at remuneration from a tax point of view, so regardless of whether the thing would make sense from a business perspective or a shareholder one, they would volunteer tax avoidance ways, truly artificial tax avoidance ways, of delivering long-term incentives to the senior managers of their clients because that is where they were coming from. That used to annoy me. I suppose it's because they're doing tax advice on the back of what ought to have been proper remuneration advice' (ExecRemConsultant: 6)

- UKRemCoAdvisoryScene: 'In a sense there's a conflict between our objectives and to some extent the professional objective, the profit-based objectives of the firm. Any business will have an incentive to improve profitability, increase market share. The rewards given should be risk adjusted and risk based. The ExecRemConsultants have a wider view - they're looking at both the pay setting and the structures, whereas we are focusing on the structures' (ROO: 7)
- UKRemCoAdvisoryScene: 'The RemCo papers are written by me, and it is clear to the members of the RemCo that they are written by me, unless they are one of the papers that's provided as independent, in which case they're written by the RemCo advisors. I suppose ultimately what goes into those papers is at my request but broadly that reflects the wishes of the RemCo Chair and RemCo members rather than the company. So I think they are independent, but equally, I don't. I know that it's very rare for the consultants to meet independently with members of the RemCo. So they're independent, I think more by chance than design. Objectivity? I think that they are too driven by what will go through the approval hoop, rather than what might be the right answer for the company' (CoyExecRemSpecialist: 7)
- UKRemCoAdvisoryScene: 'I think the ExecRemConsultancy profession has matured. I do think that there are times when you need the ExecRemConsultant to stand up to the company and the RemCo if it's about to do something mad. And I do think that the old kind of consultant was more likely to do that' (CoyExecRemSpecialist: 7)

- UKRemCoAdvisoryScene: 'I think that executive pay is doing pretty well exactly what is asked of it in this country at the moment and has done for some time. RemCo advisory services are working very well given the premises of what they are asked to do as advisors. Over the long term in this country, as in many other markets, what has been primarily asked of executive pay is to align its senior management with the interests of shareholders. I think in terms of getting management thinking about the shareholder interest and kind of increasing over time, there's a step-change from the 1970s onwards. And shareholders have had the benefit of that. ExecRemConsultants are kind of part of that answer. The advice they have given has enabled companies to achieve that kind of alignment, that kind of performance profile' (ExecRemConsultant: 10)
- UKRemCoAdvisoryScene: 'I think that varies hugely. One of the things I think is really noticeable if you look across companies of all sizes, is the very varied level of experience among RemCo Chairs. The RemCo Chair discharges the majority of work, certainly the majority of work outside the formal committee meetings on behalf of the RemCo, and therefore the experience of that individual is very important' (ExecRemConsultant: 3)
- UKRemCoAdvisoryScene: 'They manage both the RemCo side and the consulting side quite actively, and they effectively give direction on behalf of the RemCo to all of the players in that dynamic' (ExecRemConsultant: 3)
- UKRemCoAdvisoryScene: 'There are occasions, particularly with a strong agenda on the management side...in the absence of direction from the RemCo, it can be a rather more challenging environment for the consultant facing a stronger management team' (ExecRemConsultant: 3)

- UKRemCoAdvisoryScene: 'I've never been a fan of the argument that we are advisors and therefore all we do is advise. Even if one does simply provide advice, that in a sense does not let you off the hook in respect of the decisions made upon that advice. But more generally I think that in a lot of relationships our intervention goes beyond advice. On behalf of clients and with the consent of both the committees and management of those companies, we do to a certain extent manage the process for them. We do lead them towards certain conclusions and help them build a consensus around a certain course of action so I think that to label that purely as advice, I think I would step away from that defence. I do take the point that we do not have the same statutory responsibilities or duty in the way that auditors do' (ExecRemConsultant: 3)
- UKRemCoAdvisoryScene: 'Need for there to be more clarity, more transparency, in terms of how the recommendation is actually interpreted and eventually translated into the actual remuneration policy by RemCos. ExecRemConsultants tell us that sometimes they advise on something and that is not featured. Basically, it does not surface in the drafting of the policy and in the discussions that will eventually become subject to a binding vote at the AGM' (ROO: 8)
- UKRemCoAdvisoryScene: 'Where do ExecRemConsultants' responsibilities end and where do the shareholders have to step up to the plate? ExecRemConsultants are advisors, a key part of a process which needs to be got right but shareholders have to step in' (CoyExecRemSpecialist: 8)

- UKRemCoAdvisoryScene: 'I think the provision of services currently works well. Why do I say this? By judging the evidence. RCG - by and large, every listed company of matter uses an advisor under that membership, so every member commits to give independent, objective advice under that' (CoyExecRemSpecialist: 3)
- UKRemCoAdvisoryScene: 'Not bad and vastly improved. After the last ten years it has become clear who is in the driving seat on the appointment process. RemCos have taken charge of external consultant appointments, with clear lines of accountability. Resulted in improved independence of advice (ambiguity gone) and quality of such (with ExecRemConsultants previously providing benchmarking data now moving to support the RemCo on a range of issues). The position has improved - within the acknowledgement that it is a demanding environment. Engagements can be small in scope/value but in a high-profile context...much is down to the quality of the external consultant providing advice to the RemCo. There has been a change in personality type of consultant: less ego-driven/less personality-paramount/more team-based skills used within consulting. The advisor still needs to be self-confident though. Relationships between ExecRemConsultants and RemCos are on the whole pretty good. RemCo Chairs are on top of their brief and they build a personal relationship with their advisors' (ExecRemConsultant: 11)

- UKRemCoAdvisoryScene: 'I would not want to come across as in any way complacent, but in terms of current UK RemCo scene I do not see a large governance problem needing to be fixed. There are inherent tensions though, and this is a legitimate public concern. CEOs are important and powerful people, NEDs have to face complicated issues in a unitary board structure...they need to pick their battles with CEOs...NEDs have internal tension with the Board/management...there is a danger of misdiagnosing the problem' (ExecRemConsultant: 11)
- UKRemCoAdvisoryScene: 'Weak advisors get found out. Market operates with transparency and RemCos are in control. They will change advisors they consider weak. US moving to Boutique advisors could have lowered standards, rather than increasing them' (ExecRemConsultant: 11)
- UKRemCoAdvisoryScene: 'UK's 2013 reforms were good: fundamentally a good system' (ExecRemConsultant: 11)
- UKRemCoAdvisoryScene: 'I think the provision of UK RemCo advisory services isn't working terribly well. For the simple reason that the consultants involved, working for the RemCo, are often not quite as independent in terms of their ability to give possibly unwelcome advice as they might be' (ExecRemConsultant: 13)

- UKRemCoAdvisoryScene: ‘Companies cross-buy, from someone they trust/have used in another context already. The Big Four are still national partnerships - could be argued that Boutique consultancies are more likely to share expertise within the firm. With greater scale comes greater professionalism. For example, within Audit there may be Audit Technical, and Audit Technical in the Financial Services Sector. There are also certainly economies of scale. Occasionally in our Boutique firm we were told we had not won a ‘pitch’ because it was not global – the same considerations are applicable in respect of below the Board advice. ExecRemConsultants have good reputation with RemCos who need/value their services, but not with the general public. Independence can range from zero to one hundred’ (ExecRemConsultant: 14)
- UKRemCoAdvisoryScene: ‘When I first started using ExecRemConsultants one sat down and thought about the things one might like to do and then went and talked to the consultants about it, got some advice about the structure and practice and some help about who one might consult from the shareholder base about it. And by and large one then went to that and the job was done. It has moved now with increased regulation and prescription in the format of these things, that it doesn't really happen like that. You go to the ExecRemConsultant and say: “We are coming up to our annual review, what is it we can do?” Consultant produces a model that looks pretty much the same for all companies in your size band. The degrees of freedom you have to change appear to be very small’ (NED: 3)

- UKRemCoAdvisoryScene: 'RemCo Chairs have come under so much fire recently that they are very, very loathe to step away from those guidelines - even if they think they don't really work. And of course the requirement to have produced and reported on and have agreed your RemCo policy means there is very little degree of freedom to do that. You pay always a large amount of money in fees because you do not want to do anything without formal advice from the consultants to get something which is pretty vanilla - which really doesn't do much to help to drive motivation or even, perhaps, the remuneration of the executives whom it's meant to work for' (NED: 3)
- UKRemCoAdvisoryScene: 'It's unusual to have more than two executive directors on the Board, and they're only a very small proportion of the people who work in the business and whose pay is key to what they do. So the whole system's got rather silly, and is an example of regulation gone mad. And producing a result that is not what was expected' (NED: 3)
- UKRemCoAdvisoryScene: 'I didn't see any CompCo outsourcing of decisions to ExecCompConsultants. Committees looked for a perspective on programmes, payouts and current remuneration of executives. I did see Committees who were too beholden to management - so afraid the CEO would leave if he did not get what he wanted. At the end of the day that's the CompCo's decision you know' (ExecCompConsultant: 2)

- UKRemCoAdvisoryScene: 'It's all so expensive and it doesn't really do a good job, I don't think. It certainly doesn't do a good job to motivate the executive. It does a slightly better job of rewarding them for performance. You're having an investment fund manager who spends a lot of time, through its compliance department, looking at the pay of the very few executives in a public company yet nobody looks at the pay of the investment manager which is many times the order of magnitude higher. The people who provide them with the funds are not engaged in the pay of the investment fund manager. Why should it be that you have a big institutional investor who spends all the time and effort on the pay of the managers in a publicly listed company and spends no time at all looking at the pay of the managers in their private equity portfolio? What is the difference? You could say that the private equity portfolio, the manager of the company there, is more directly aligned to the results of the firm' (NED: 3)
- UKRemCoAdvisoryScene: 'In my most recent case the CEO started when the share price was under £1 and moved it to almost 20 times that. It was impressive. And we tried to put his salary up by 20% and the institutions weren't happy with it. It was the corporate governance advisor, rather than the fund manager. We did eventually manage to do it. But it was just hard. And there was a knee-jerk reaction which is not good or not helpful' (NED: 3)
- UKRemCoAdvisoryScene: 'Fee level extraordinary, and then, of course, executives get even more unhappy because they don't think they are getting value for money. But it's part of the cost of regulation. Nobody would mind if it produced a better result, but I don't think it does. A CEO has resigned to run a company that is three times as big - because he's paid three times as much and there's nothing a RemCo can do about it. It's silly' (NED: 3)

- UKRemCoAdvisoryScene: 'I don't consider the provision of UK RemCo advisory services is working very well. The way that companies get advice is to lean on their internal HR functions to do a large amount of what I call 'grunt work' around pay. So that's benchmarking, looking for trends, looking for pitfalls and then getting a consultant with experience to provide a third-party assessment of that and back up the views held internally' (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: 'Much more common now is for there to be a relatively arm's-length relationship created: where either the company or the RemCo (or both) have a beauty parade. Choose an ExecRemConsultancy firm, but not always. Mostly five companies, a small handful of organisations. Their process has taken 15 to 20 years to solidify into now a very well-known process. Consulting firms that have acquired these clients, where the companies are relying on so-called independent consultants to give them advice, these organisations actually have mechanisms whereby they stay advising the companies for a period of time that's longer than one year. That makes perfect business sense, as the process of acquiring an ExecRemConsultancy appointment is expensive. Once you've had a request for proposal, you're probably investing £15,000 to £20,000 of professional fees to put in place a sophisticated offer to the company to select your firm to provide those services' (ExecRemConsultant: 15)

- UKRemCoAdvisoryScene: 'We have lost the engagement to ExecRemConsultancy firms that have effectively done what I call Phase 1 work for free. If that's the case then naturally what's happened is that there's an investment in the company up-front which you'd expect them to then somehow pay back by means of longer-term relationship with the company. Consulting firms will initially invest very heavily in areas such as benchmarking, and pay data can be something which is rather unique if it's below the Board level. Access to financial services, pharmaceutical or specialist sector data gives them a unique selling point for the client. They may have geographic range and coverage that other companies don't' (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: 'This is a consulting firm which only eats what it kills. If you have a client that's not paying up there's no cash to fund the analysts who are needed to do the work. That tends to create an environment where the Big Four/ABCs have an unfair advantage in this particular marketplace, and at the other end of the spectrum small players are able to exist. They are being under greater scrutiny as a result of some mistakes they've made recently. Our firm outside US is an uncomfortable environment to be in because we are sticking rigidly to rules of independence where Big Four/ABC have a different playing field' (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: 'There's a bit of consolidation in the marketplace because economics are such that it makes sense to be the larger players' (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: 'And I do think you get this inherent myopia with the RemCo focusing on: "We want the right answer to keep the executive happy"' (CoyExecRemSpecialist: 1)

- UKRemCoAdvisoryScene: 'This is a B2B business. And clients are sophisticated buyers of services, and they will find advisors that give them good advice and meet the service needs. So, I don't perceive there to be a problem' (ExecRemConsultant: 4)
- UKRemCoAdvisoryScene: 'We are a very regulated system, particularly in the UK, but globally as well and therefore the ability to really do our job... to move away from the vanilla is actually quite difficult and really nine times out of ten our job is how we address developments and best practice when advising on quite detailed points like holding periods and malus and clawback or whatever' (ExecRemConsultant: 4)
- UKRemCoAdvisoryScene: 'In terms of genuinely stepping back and thinking back from first principles, I'm not sure that's a comment on the work of ExecRemConsultants, or just the system more generally, but I'll query how much of that really goes on. If I wanted to level a criticism against our industry, it's interesting you have within the question, pay outcomes. The feedback I sometimes get is with new clients: "Our previous ExecRemConsultants never really offered a view on how tough or otherwise the bonus targets are." If you're not commenting on the target range against which that is assessed, I don't know how much added value there is, if I'm honest. I think the best consultants do that and probably do it well. I suspect there is a whole tier of second division advisors who don't do that very well' (ExecRemConsultant: 4)

- UKRemCoAdvisoryScene: ‘Like most things in life, it generally works. I think that RemCos on the whole in the UK are effective. There is perception that is different than the reality, and the perception is that it’s behind closed doors, so something mysterious must be going on. This is not my experience and I’m sure it’s not the experience of most people who have attended those meetings. I think there is a desire to ensure due process is followed. There is often, but not always, adequate debate in decision making. And there is reliance, and a heavy reliance of NEDs on the advice of appointed ExecRemConsultants. And that is right and proper, and that is what they are there to do. The general approach/purpose is positive’ (CoyExecRemSpecialist: 4)
- UKRemCoAdvisoryScene: ‘Increasing complexity in regulation results in a minefield of confusion and complexity that not only the ExecRemConsultants but the NEDs themselves are asked to navigate. It is making the job more difficult, not easier, to do the right thing’ (CoyExecRemSpecialist: 4)
- UKRemCoAdvisoryScene: ‘Over-regulation, too many rules, which is detracting its purpose – motivate executive directors to deliver business strategy. And that strategy is not just about profit. It is much wider than that. Negative view of the executive directors, these guys need controlling because they’re going to do the worst thing. Applying more and more guidelines and rules. The old days of ‘comply or explain’ are largely gone. It’s now ‘comply and’, and inevitable complexity of rules, it means that the rules do not make sense. They cross over each other and often defeat their purpose’ (CoyExecRemSpecialist: 4)

- UKRemCoAdvisoryScene: 'I don't believe control is through rules. I believe it is controlled through the application of the rules. NEDs have the will and skill to apply controls and use their discretion to apply the rules, to have an appropriate assessment of risk and ensure that executive directors are doing the job that they're supposed to do without taking short-cuts/mis-selling' (CoyExecRemSpecialist: 4)
- UKRemCoAdvisoryScene: 'I have seen RemCo Chairs who do not have any understanding/background in Reward, or wider HR and the cultural aspects of it, and they're on a huge learning curve. I think there is a huge flaw in the industry and that the NEDs as ex-executive directors may not have backgrounds that qualify them to have an understanding of Reward in the way they need. The training is *de minimis*, and often one day. They are learning as they go. It leads to the propensity to make mistakes. It leads to an over-reliance on ExecRemConsultants. They inevitably look to the expert in the room' (CoyExecRemSpecialist: 4)
- UKRemCoAdvisoryScene: 'Often, I find the advisors are more powerful in the decision-making than the RemCo members, and that's something that needs to be fundamentally looked at. I do not believe it is the fault of the ExecRemConsultants. I believe they are doing the job they are asked to do. They are very objective in their approach to pay and state facts. But these facts are over-relied on. The NEDs need to have more confidence to apply the brakes rather than feel that they've just got to follow a process here' (CoyExecRemSpecialist: 4)

- UKRemCoAdvisoryScene: ‘So I would say that a lot has been done in the period following the financial crisis to regulate, particularly through the RCG, the work of the ExecRemConsultant. I have to say at once the work that’s been done in that field is clearly valuable and positioned the industry well in perception terms externally. I suspect that there were rather fewer issues than some external commentators might have suggested’ (ExecRemConsultant: 3)
- UKRemCoAdvisoryScene: ‘I suggest that the situation was not particularly poor, that there were actually relatively few issues prior to that point. But overall I would say that the provision of services is working well’ (ExecRemConsultant: 3)
- UKRemCoAdvisoryScene: ‘I think that RemCos, particularly in larger and Mid-Cap companies, are very clear about the hiring and firing responsibility with regard to ExecRemConsultants. They give direction to consultants, albeit that they expect their consultants to work fluidly with members of the corporate management. My experience is that line is sometimes a little more blurred as one moves into the Small Cap and maybe there isn’t always the strength of RemCos’ experience to develop a good working relationship there. But certainly, as I say, in the FTSE 350 I think it works well’ (ExecRemConsultant: 3)

- UKRemCoAdvisoryScene: 'My feeling about it is that there are too few ExecRemConsultants. There's not enough choice and I feel that clients are frustrated by that. Some big accountancy firms do not wish to act as independent advisors to RemCos. They have taken a commercial decision that it is not the space they want to be in, as it would prohibit them from doing further work for clients. It's too limited a mandate and frankly it just doesn't pay enough for what they may think is the external brand risk that one takes in associating oneself with another firm's remuneration' (City Lawyer: 3)
- UKRemCoAdvisoryScene: 'I very much get the feeling that companies here change their remuneration advisors very frequently. And I'm not sure that's helpful because it seems to me the advisor gets changed because the company, or the executives, or the RemCo just don't like the particular advice they're giving. Which seems to run contrary to the idea of giving independent advice? If what you're seeking is confirmation of what you want to do, I think there's a big tension there' (City Lawyer: 3)
- UKRemCoAdvisoryScene: 'Provision of UK RemCo advisory services is working quite well. NEDs are not always as supportive of the RemCo Chair as they could be. So I think that an external firm or an individual as an advisor is a useful sounding board at least, and more often is a source of technical advice, plus some insights into general market practice. So I think there is a need for ExecRemConsultants and I think that they on the whole do a reasonably good job' (NED: 1)

- UKRemCoAdvisoryScene: ‘We have interactions with ExecRemConsultants, we have interactions with the RemCo members, but we don’t see exactly how they work in the Boardroom, and have to go on what we pick up elsewhere. The situations have improved perhaps if you compare it to where we were 10, 15 years ago. I think there was a concern at the time that a number of ExecRemConsultants maybe had too much power in terms of setting schemes, or proposing schemes to RemCos which they felt were appropriate but weren’t necessarily right for the company’ (ROO: 4)
- UKRemCoAdvisoryScene: ‘I think ExecRemConsultants have taken a fair bit of flak in the past for their role perceived through the whole debate. Some of it fairly, probably some of it unfairly. I guess they’re not dissimilar in position to proxy advisory firms that are criticised for what they do from time to time. But I don’t think the role of ExecRemConsultants is the biggest in executive pay where there are much bigger issues. If you asked your typical investor: “What is the big problem with executive pay?”, I’d be surprised if many of them said: “It’s consultants over-reaching themselves or putting inappropriate things forward”. It’s more of a question of how pay levels and structures have developed or the complexity of the overall’ (ROO: 4)
- UKRemCoAdvisoryScene: ‘That reflects concerns over sheer levels of pay. If nothing else, I guess where you could bring an ExecRemConsultant in is the extent to which their work has contributed to levels being at the stage where they now are. Benchmarking for example, is driven up. If consultants hadn’t been so aggressive with their benchmarking in their early days, it wouldn’t be in this position now. But it’s only a small part of a much bigger picture’ (ROO: 4)

- UKRemCoAdvisoryScene: 'Pay for failure? We have malus and clawback arrangements, with much longer-term pay programmes, we no longer have re-testing, we have 12 months or less notice periods, we have RemCos applying discretion on a downwards basis. That sort of good citizenship of a company doesn't get reported because what makes headlines from a newspaper's perspective is the ones that fail and the ones that are perceived to be working awry' (ExecRemConsultant: 5)
- UKRemCoAdvisoryScene: 'There can be formulaic misunderstandings or the exercise of discretion by the RemCo perhaps wasn't powerful enough. The perception since the recessionary period and general low growth is that executive wages seem to be on a different escalator to everyone else's. We forgot that executive pay has increased because we did not have long-term incentives 30 years ago. US had them and a higher productivity and high growth, and balance out short and long-term behaviours. I think the shareholders/proxy agents can't continue to point the finger over in one direction when they themselves have made it more difficult to reach certain aspects of pay in the executive structure. Higher potential maximums. Higher volatility' (ExecRemConsultant: 5)
- UKRemCoAdvisoryScene: 'There seems to be some strange outcomes in terms of where performance appears to be over-rewarded, or shall I put it in this way, slightly more in terms of mediocre performance appears to be over-rewarded. How do you reward executive directors when the economy is not performing well, where there is a declining market, and yet your company compared to its peers is actually performing rather well, even though the share price may be falling and profits may be falling? So maybe there is some disfunction in the way RemCo advisory services is working' (ROO: 5)

- UKRemCoAdvisoryScene: 'I've got no reason to say things are not working well. I do however have some scepticism in relation to the very small number of external consultancies that provide these services to companies, which never ceases to surprise' (CoyExecRemSpecialist: 6)
- UKRemCoAdvisoryScene: 'One of the things I always found quite difficult was that CEOs get huffy about HR-related costs in a way they don't about audit and other financial costs. I was always under intense pressure to keep RemCo costs down. That's probably because auditors have legal responsibilities; appointed ExecRemConsultants don't, which is good and bad. The fact that they don't have skin in the game could lead to them thinking that they can just do what the company thinks it wants, rather than what perhaps they ought to be thinking about in terms of alternatives. I have never felt that by the way, but it could be a risk' (CoyExecRemSpecialist: 5)
- UKRemCoAdvisoryScene: 'Weir Group had their DRR voted down. I thought: "Were the ExecRemConsultants doing their job?" because one of the things our ExecRemConsultants always did for us was to go out and test with the major shareholders what their views were, as the consultants had a very good idea what was acceptable to them and what wasn't. So I think that's probably a case of where something broke down in the system, because I would expect our appointed ExecRemConsultants to know what was going to happen, though these days in politics that's less clear' (CoyExecRemSpecialist: 5)

- UKRemCoAdvisoryScene: 'A friend of mine said to me recently that one of the problems with ExecRemConsultants at the moment is because of some legislative changes all firms are now on the same three-year cycle. Everybody is wanting everything at the same time. It's damned hard to get the people you want because they're so busy because everyone's on the same cycle' (CoyExecRemSpecialist: 5)
- UKRemCoAdvisoryScene: 'The newspapers do hate us. The RemCos I have seen are so varied. Often, I would say they do sometimes love us, but they sometimes also don't like us because we're standing there saying: "Well, if you want a vote from your shareholders, you can't do that". I've seen a couple of occasions where it's like: "Oh we lost". They didn't invite us back to tender. The relationship had broken down because I told them they couldn't do it and they didn't like that because they wanted to do it, so they're going with a practice that will let them do it' (ExecRemConsultant: 7)
- UKRemCoAdvisoryScene: 'It is very hard though, for us to see the quality of that advice and we will never know whether an ExecRemConsultant gave different advice which the RemCo didn't follow and I am certainly aware of some ExecRemConsultants that have resigned or threatened to resign because they felt that the RemCo was not following their advice. To blame everything on ExecRemConsultants is maybe a step too far' (ROO: 6)

- UKRemCoAdvisoryScene: 'Lawyers have fallen out of the first line of communication in this area. I am very, very rarely in meetings between RemCo and ExecRemConsultants. I get the impression consultants are not always in RemCo meetings. When I talk to RemCo consultants they seem sensible and concerned about the way executive pay is perceived by the outside world. Not really sure what goes on face-to-face between appointed ExecRemConsultants and RemCos' (City Lawyer: 4)
- UKRemCoAdvisoryScene: 'Advisory services in the UK: It's in quite a boring place, mainly as the result of higher regulatory requirements and general guidance pressure from the investor community than any other country's ever seen.' (ExecRemConsultant: 16)
- UKRemCoAdvisoryScene: 'It's less a problem of bias. It's a problem of RemCos. The industry has got relatively little demand from RemCos for truly expert advice. Good advisory skills. Much less demand than you would have thought, considering the concentration of large corporates in this country. There are many fantastic companies, RemCos, CEOs, who do this in a tremendously good way, and they're served by very good ExecRemConsultants and they hire the bad ones. And sometimes they hire the good ones because they just need to get good ideas/thoughts and it's all valid in a consultancy situation. There are too many companies not just in the UK even more so across Europe, who do not feel this is a matter of true urgency and importance and it's more a game for the galleries. Therefore they only want very basic, very safe support, and they don't really want advice' (ExecRemConsultant: 16)

- UKRemCoAdvisoryScene: ‘Companies that turn over CEOs are much more productive in terms of what they get for their money. Research shows higher value figures for companies that turn over the CEO. This suggests that RemCos ought to be less risk-averse than they are currently’ (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: ‘RemCo Chair and members are on the face of it our client, but ironically don’t pay the bills. The RemCo Chair is an individual who is the chooser. If RemCo Chair wants an ExecRemConsultant they will get that consultant and what tends to happen is that as RemCo Chair moves from one company to another they will bring their preferred advisor with them. Large firms can consolidate their position as they have a large bunch of professionals who they can serve up in any circumstances, whoever happens to be on the Board. The company’s Chair is rarely critical to this conversation around remuneration governance, but sometimes can be. Thinking about a recent UK corporate governance debacle, shareholders and proxy advisors should have had massively more influence on who is advising the company on pay. ExecRemConsultants selected especially on the basis of the ability to read the runes of where the proxy voting agencies are feeling most uncomfortable, so that companies can avoid bear traps when it comes to proxy voting recommendations’ (ExecRemConsultant:15)
- UKRemCoAdvisoryScene: ‘I think probably we need to be more proactive in calling out bad behaviour and certainly if I heard the examples of going to management and saying: “You’re underpaid” then I would definitely call that out. I have a very good idea of who are good ExecRemConsultants and who are bad consultants. If a company is advised by one of the latter then it tells us a lot and we would add extra scrutiny. Would we have less trust in that structure? Yes, probably’ (ROO: 6)

- UKRemCoAdvisoryScene: ‘I also attended US Comp Committee meetings. My initial reaction was to be appalled that papers would be presented, very often by HRDs. A few grunts. Terribly old boys network. And I used to think that these were awful. In UK, terrific meetings, we’d discuss everything and we’d reach some sort of conclusion. It struck me I was missing a point about the US meetings. Bit like politicians getting together to sign documents. All the work had been done beforehand. UK meetings were heated affairs because people had not had these preparatory meetings. RCG’s VCC is good. Normal requirement for meetings without executives present. Papers were read before, but there was never any discussion about them beforehand. People would come armed with their opinions, views and questions, which had to be resolved within the hour that was allotted before the main Board meeting started. There was a lot about the process I found rather unsatisfactory’ (ExecRemConsultant: 18)
- UKRemCoAdvisoryScene: ‘I think ExecRemConsultants genuinely listen to the RemCo, which probably trots out the classic “attract, retain and motivate”. Not want to be behind the market. Provide a bit of an incentive. Can’t give big pensions anymore. ExecRemConsultants will say: “This is the package I can design for you” - if you want to put it like that. RemCos some have clear ideas on metrics. Not want to set us too far apart from anybody else. But interesting question is whether a lot of junior ExecRemConsultants, or even senior ones, actually sit there and believe executives are incentivised by short-term incentives? Wide range of answers, ranging from this guy is driven by money but that one would not be incentivised at all, and they would make a decision which was in the long-term interests of the business. And I don’t think consultants

actually, sort of, challenge RemCos how they think about these sorts of issues. Nor do they flag their concerns about somebody doing that. Executive Directors will do something short-term to maximise their bonus. I agree that the duty of ExecRemConsultants is never to not say something you consider to be of importance later on' (NED: 4)

- UKRemCoAdvisoryScene: 'The accountabilities lie with RemCo. I think to blame ExecRemConsultants you've also got to blame NEDs for being lazy. Not satisfying themselves that they should know what they should do. The ExecRemConsultant is there to a certain extent to make sure the package gets through shareholders and is okay. Compliant might be another word. But NEDs sit on a Board with those people whose pay they are determining. There is a natural bias then, to not make trouble, because this will wash over to the functioning of the Board itself' (NED: 4)
- UKRemCoAdvisoryScene: 'Female ExecRemConsultants: It was a way of making progress in a professional service field. Very open to having women doing these roles. With women RemCo Chairs it might be different. A lot of women do end up as RemCo Chairs. I don't think ExecRemConsultants egg on their clients to do things. Some innovations come from institutions others, like performance share plans, come from ExecRemConsultants (and did not come from the US incidentally)' (NED: 4)
- UKRemCoAdvisoryScene: 'ExecRemConsultants have a disproportionate impact sometimes. They know from experience how it happens and often do the research concerned – for example, in relation to performance share plans and short averaging periods for measurement. The people who do the modelling on share capital consumption also tend to be the ExecRemConsultants. Just occasionally

you will get a Share Manager in an organisation who really knows their stuff, but normally it's the consultant who has got more information'  
(NED: 4)

- UKRemCoAdvisoryScene: 'RemCos are potentially the worst possible decision-making bodies in the world. Members probably have great and glorious careers and don't want to look foolish, but don't have time to get into all the detail. Maybe the NEDs have not been given all the detail. HRD/Head of Compensation & Benefits/CoySec probably in truth feel that their main allegiance is to the CEO because he's the one who decides if they're going to be employed or what they're going to be paid. CEO is probably in RemCo meeting or makes his views known. Also conspiracy of interest; whatever CEO is paid there tends to be a relationship to what his direct reports are paid. So there's a great conflict of interest there. Appointed remuneration consultants may only be asked to advise on a few limited things and however splendid, objective, insightful their evidence may be, it may not be sought' (ExecRemConsultant: 18)
- UKRemCoAdvisoryScene: 'ExecRemConsultants have no right of reply so that if a decision is made by the company that they disagreed with, that won't come out. We took over as RemCo advisors in a particular instance where the CEO had been given the right to millions of pounds worth of shares with very, very modest performance conditions (because really it was a retention payment or a 'stick around bonus'). We were asked to comment on a plan that was not of our own design and opined that the shares concerned should be released. The upshot was that we were vilified in the press and I had to write to 150 of our clients. You can be an unwitting victim of the press, everybody likes somebody to blame. It's just not a perfect situation. Too many vested interests, too many conflicts of interests. It's somewhat tense' (ExecRemConsultant: 18)

- UKRemCoAdvisoryScene: 'I think the industry is in a worrying state. There has been a lot of consolidation and so the diversity or difference, I think, has diminished. Two of the Big Four [are leaders in ExecRemConsultancy advisory services], the other two have "dabbled". Towers have merged, Aon Hewitt acquired NBSC. Mercer has recently acquired Kepler. So there's much less diversity and it's really happening over the last three or four years. And it's hard to see now where the new start-ups are going to come from. Other than corporate activity there hasn't been much change in any of the players over ten years. Market is quite stable. I think that's not healthy because it means there isn't a huge range of choice. In terms of how independent it is, I think the challenge with RemCo advice is a lot of it is very particular to the individual. It's not even the firm' (NED: 5)
- UKRemCoAdvisoryScene: 'There are a whole variety of skillsets that you need to be an effective ExecRemConsultant to a RemCo, you have got all of the know-how of market data and how to deal with it responsibly, and I think a lot of people aren't that good at that, but beyond that there's the ability to be impactful and effective if you are actually presenting to a RemCo or you are privileged enough to participate in their deliberations. And so to say it is working or it is not, I would say it's working in some respects and not in others. It works well in the sense of there being access to market data. And I think it works well in there being people that will help the RemCo understand some of the technical issues around remuneration, so compliance, disclosure, reporting requirements. It works less well in the true independence of an individual, quite what their purpose is. When I was an ExecRemConsultant, I viewed my responsibility to be to the company' (NED: 5)

- UKRemCoAdvisoryScene: 'A lot of ExecRemConsultants' reports are very formularised. Very lacking in genuine interrogation of the specific issues the RemCo of the organisation is looking to get a handle on' (NED: 6)
- UKRemCoAdvisoryScene: 'I don't think the CEO would over-step the mark in terms of trying to influence the appointed ExecRemConsultants inappropriately. He wouldn't try to use it to unduly influence his remuneration' (NED: 6)
- UKRemCoAdvisoryScene: 'RemCo relationship with external consultants is working pretty well in UK. Experience is that consultants do not fully appreciate position of management in certain cases, in terms of reasonable pay practices operated in certain sectors' (CoyExecRemSpecialist: 12)
- UKRemCoAdvisoryScene: 'I see appointed ExecRemConsultants as just that, consultants. They are there to advise the RemCo but actually and ultimately I believe very, very strongly that the Board as a whole, including the NEDs and executive directors and the RemCo, they're the ones who are ultimately responsible to shareholders. So any notion that the consultants should be moving, cajoling or bullying RemCos doing the right thing for shareholders is a complete nonsense. It is for NEDs to protect the interest of the company as a whole. There is the danger of the whole remuneration environment becoming very prescriptive... NEDs constrained by tunnel thinking on the part of shareholders' (CoyExecRemSpecialist: 11)

- UKRemCoAdvisoryScene: ‘Tunnel thinking: Is it shareholders? Is it proxy advisory bodies? Who’s really driving their requirements and how best is that done and brought together? It sort of goes back to trust in the end and just common sense on the part of Boards. Going back some way the first awareness I had of remuneration issues was the “snouts in the trough”. Reviled because of excessive executive pay in the face of corporate under performance or even failure. Excessive rewards for failure. I’m quite interested in the last year or two to see a lot of people taking a pasting on some quite technical remuneration-type issues that are entirely related to the quantum (absolute or relative). That’s an interesting development, and one I don’t really welcome. Issues that have been had over disclosure of performance targets. Some level of detail can be quite difficult in a highly-competitive market particularly when you happen to be one of the only quoted companies in the industry’ (CoyExecRemSpecialist: 11)
- UKRemCoAdvisoryScene: ‘We are getting hung up on a one-size-fits-all very technical set of requirements now. I find that frustrating because ultimately a company needs to do what is right for that company in those circumstances. It’s absolutely not about making sure that all the execs fill their boots, absolutely not, it is about making sure one is putting in place mechanisms that are genuinely relevant and motivating. I see, much to my disappointment, a resurgence in the demand for TSR as a performance measurement. How does that work in a company that’s counter-cyclical? Fundamental misunderstanding of the drivers of value in that business. Who is setting the standards? Who is demanding that they’re implemented? Who actually holds the vote? Long-term future of the company? Translates into long-term future of all the employees. We are missing the broader perspective as we shoe horn everyone into a one-size-fits-all remuneration structure’ (CoyExecRemSpecialist: 11)

- UKRemCoAdvisoryScene: ‘On the one hand, as a ‘process person’, I really welcome the standardisation. What you can’t have is your top 15 shareholders (who may account for over 50% of the shares in a particular case) each sending you their own remuneration policy with conflicting requirements telling you that if you fall foul of any one of those requirements it will result in a vote against the DRR in a situation where that’s going to be binding. This is unhelpful. On the other hand, do we really want a situation where the 15 shareholders are telling us that we do have their full support, we’re doing all the right things including in remuneration, but they can’t even take a view on how they’re going to vote because they’re just going to follow slavishly the voting recommendations of one of the big proxy voting services?’ (CoyExecRemSpecialist: 11)
- UKRemCoAdvisoryScene: ‘ISS swing the vote. On the one hand, great, if they are really representing all the shareholders properly, because it gives clarity of requirements. It gives a single point of engagement, and there’s lot of potential benefit in that. It does not cater for the situation where a company, because it is at a particular point in time at a certain stage in its cycle, actually has to do something a bit more imaginative or different. The fascinating thing in those circumstances is when one tries but fails to genuinely engage and tries to set out the rationale. I have had situations where a report lands on my desk with a deadline for comments that has expired between receiving the e-mail and me leaving the meeting I was in. Engagement has got to go two ways. There must be a very, very valuable role ExecRemConsultants can play in trying to draw these things together’ (CoyExecRemSpecialist: 11)

- UKRemCoAdvisoryScene: ‘ RemCo discretion: Yes, but, I agree with that, but then I think how on earth they can determine the quantum of what the up or down should be, and I suppose all they do is to look at what other companies might be doing in similar circumstances’ (CoyExecRemSpecialist: 3)
- USRemCoAdvisoryScene: ‘Enron/Tyco drove a lot of ExecCompConsultants as well as Boards to really pay attention to these issues, so they don’t fall into the trap, as it were. I think there is a need for the kind of reform we saw in the private sector being introduced into the public sector, actually’ (ExecCompConsultant: 2)
- UKRemCoAdvisoryScene: ‘I think it could work. Manifest tried to get themselves in a position, where it was for shareholders, as clients and then were providing remuneration advice on the back of that. Like lots of things in remuneration governance, the shareholders will say one thing, but actually do something else. They expect their client companies, in which they have an investment, to make sensible decisions around remuneration governance, and if they don’t, they’ll just complain until it’s changed’ (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: ‘The importance of engaging with investors. Because if they’re insisting on having all these performance-related measures and metrics, and deferring it, and having it in cash, shares and options, then actually they’re causing the problem. But how easy is it to say to investors, look, what you really need to do is forget LTIs because they don’t work. Just focus on base pay and a simple bonus scheme, which is a percentage rather than a multiple of salary. And look beyond things being based on TSR and EPS’ (ROO: 2)

- UKRemCoAdvisoryScene: 'You start focusing on the vehicle, rather than the destination' (ROO: 2)
- UKRemCoAdvisoryScene: 'The intrinsic stuff, for a lot of people, is incredibly strong, and just putting a large bonus on it isn't going to make them do anything' (ROO: 2)
- UKRemCoAdvisoryScene: 'The thing that's missing at the moment is that there is no body of RemCo Chairs to exchange information on whether they think they're getting the right professional standards as a group, and that's very different from the ICAEW regulating them or the RCG regulating ExecRemConsultants. So, rather than looking through the lens of the consultant, looking through the lens of the client' (NED:1)
- UKRemCoAdvisoryScene: 'I've got a question that sits in the back of my mind. Everybody seems to drive their remuneration policies from the median of the market, and my concern is that if everyone is driving off the median of the market, then everyone is driving up compensation just by that very nature' (CoyExecRemSpecialist: 6)
- UKRemCoAdvisoryScene: 'I do think one of the things that we've probably lost a lot of is passing on a business to future generations, and that's as employees come, or potential employees, and I think we have lost that a bit' (CoyExecRemSpecialist: 6)
- UKRemCoAdvisoryScene: 'There are some quite extraordinary levels of remuneration, for the proposed output for their marking the executives against? I don't know what the answer is to that at all' (City Lawyer: 4)

- UKRemCoAdvisoryScene: 'I wonder whether ExecRemConsultants are always getting enough background information, getting to the nub of strategy to help them design performance conditions: they're either too easily attained, and the outputs then seem disproportionately high, for what has been achieved, or they're too hard to get and no one's happy. I suspect that in some cases, the ExecRemConsultant is better informed than others. It's difficult to balance up all these conflicting issues' (City Lawyer: 4)
- UKRemCoAdvisoryScene: 'The public at large may take the view that there's just a spiral going on' (City Lawyer: 4)
- UKRemCoAdvisoryScene: 'Companies with profit sharing schemes actually outperformed those without (Studies in late 1980s/early 1990s). It was something that was quite important, and it was part of the philosophy of the company, which I think is gone. It will probably not come back now' (ExecRemConsultant: 9)
- UKRemCoAdvisoryScene: 'The British though, the Anglo-Saxon business community generally, are a bit uncomfortable with completely free enterprise. That's the truth' (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: 'Look at total value rather than TSR. The ISS's of this world are wedded to TSR (perspective of individual shareholders). Look instead at total shareholder body' (ExecRemConsultant: 15)

- UKRemCoAdvisoryScene: 'The biggest reason for executive pay being kept low in Sweden, say, is that you have strong owners. They are more confident. Capital doesn't feel like sharing too much with its executives. In US and UK, we treat management like pseudo-owners, not employees' (ExecRemConsultant: 16)
- UKRemCoAdvisoryScene: 'I do think RemCo focus is too much on external benchmarking, and not enough on internal benchmarking. That is going to have to change. We have been pushing it, but I don't think RemCos are that interested. Ratios from the United States are going to come here. Very blunt instruments, not helpful. But there are sophisticated ways in which internal relativities could be used more. I don't think RemCos do enough of that, just as I don't think RemCos challenge targets in a sophisticated enough way' (ExecRemConsultant: 7)
- UKRemCoAdvisoryScene: 'Restricted stock has a discount to the performance share arrangements because that means you can deliver less volatility in terms of outcomes. Key issue is when ISS think about ERWG, some investors go off on their own without bringing the whole of the investor community with them, and especially ISS being a US-based organisation' (ExecRemConsultant: 5)
- UKRemCoAdvisoryScene: 'Shareholder groups and proxy agents, around how they've managed changes from one form of pay to another, which have led to the current situation I think we're in. As well as globalisation' (ExecRemConsultant: 5)

- UKRemCoAdvisoryScene: 'It will be so interesting to see what happens, but feel like all the IA stuff came out so late, ISS came out, what, yesterday [referring to 26th of November 2016]. And then people are already having to make decisions. People are just going to be quite subdued about it. I feel it might not be as interesting as people think [referring to 2017 AGM Season]' (ExecRemConsultant: 7)
- UKRemCoAdvisoryScene: 'Disappointing outcome to the ERWG from quite a lot of effort. They restated a hell of a lot of stuff which people like myself knew beforehand, so it was not incremental. It's just kind of catch-up' (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: 'Strong support for the view that there has to be a clear alignment with a long-term objective and interests of the company and shareholders with executive remuneration. It goes back to KPIs and performance indicators, retention periods, whether long-term incentives are indeed long-term. As you know, Kay recommended that it should be at least ten years, and even a couple of years after leaving the company' (ROO: 8)
- UKRemCoAdvisoryScene: 'It's all gone...you wonder if that had been maintained and employees had been able to get bigger and bigger stakes in companies. Employees hold shares for a long, long, long, long time. That's why, when RBS failed, middle managers, cashiers, lost money. Context has changed and, therefore, the feeling that executives were getting away with blue murder. If you want to put it like that, it does ring true, because the institutional shareholders become more short-term. They're making trading profits out of them, rather than being active shareholders' (NED: 4)

- UKRemCoAdvisoryScene: 'What are the guidelines? I think institutional shareholders have a lot to answer for incidentally in the way that pay is designed in the UK. From the time they have had very hard rules. No vesting on TSR below median-type rules, which is actually just plain bonkers. Some Board members, comprising RemCo, who are independent, who know a bit about pay, because they've been paid themselves normally, who want to attract, retain, and motivate a group of executives. Most Boards don't have any understanding or oversight about how pay lower down has been set and worked. Ability to pay not really an issue...not much difference to share price or profits. Smaller organisations do have ability to pay issues. When you're setting pay for the rest of staff, ability to pay is important. Divorced top pay from lower pay' (NED: 4)
- UKRemCoAdvisoryScene: 'I don't want executive pay to be divorced from everyone else's. And I think that's what happened on executives' pay. The rules for them are different from those down there. You now get ExecRemConsultants who may deal with executive pay, and you don't deal with pay for the masses. And they've often done that from quite an early age as well. Bright graduates/bright MBAs being recruited, or actuaries have decided they don't want to be actuaries anymore. Not many of them have experience of managing pay for everyone else' (NED: 4)
- UKRemCoAdvisoryScene: 'When executive pay changed under Margaret Thatcher, she talked about the shareholding democracy and we all had all-employee share plans as well, on a smaller scale. An opportunity for people to have a stake in the business they work for. We thought as a result of being shareholders we would have an influence on those companies. Executives having much bigger share-owning stake in the business. There was going to be a change in society, and some sort

of change of ownership. Privatisations...mass ownership. It hasn't turned out like that at all. Pension schemes invest less in UK companies, and have got more diversified portfolios. They don't consult people whose pensions they have got as to how to vote on executive pay. That sort of shareholder democracy just doesn't exist. That's what makes us cynical, would be my view' (NED: 4)

- UKRemCoAdvisoryScene: 'Well, part of this is the currency, the currency of shares necessarily has an unpredictable outcome' (City Lawyer: 2)
- UKRemCoAdvisoryScene: 'Puzzles me as to how remuneration has become such an issue, whereas it wasn't 30, 40 years ago. Arguably, social inequality was just the same, although perhaps it was perceived in pointing in a different direction' (City Lawyer: 2)
- UKRemCoAdvisoryScene: 'LTIs are so opaque and such a crapshoot. They're very expensive and have lost their value. It used to work extremely well when you had a rolling test period for market price options. By and large, to some extent, if shareholders did well, the executives did well as well... maybe the share price goes up disproportionately in one business as opposed to another. But, so what? The intricacies in actually changing these things have been so intense that they have lost all their value anyway' (NED: 3)
- UKRemCoAdvisoryScene: 'The thought that bonus at this level is motivational is not true. They don't change behaviour at all. One should look to see what one wants to bonus. It would be nice to have a whole shift away from that. Look at overall performance of the business over a period of time and to allocate that to the variable element of compensation in an appropriate way. I think you get a better result from that. What is the value that LTIs provide? It's become so unrelated to reality that one's

tempted to think it's a total lottery whether the things pay out or not. And they're certainly not going to pay out regularly because the whole structure of the testing means it is most unlikely to happen' (NED: 3).

- UKRemCoAdvisoryScene: 'I wonder whether our corporate society can actually survive the idea that meeting the requirements of the capital markets are the only ambition for a company' (NED: 3)
- UKRemCoAdvisoryScene: 'Change the debate from how much is the other getting to what they are doing for the money. Productivity of executive pay is lowest in mid-sized organisations. Higher when CEO moves regularly. Higher when a woman is in charge of the RemCo' (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: 'I think it's absolutely right that an ExecRemConsultant's position is worse than anyone else's? Not at all. The process is dysfunctional between the RemCo being a proxy for the market and it's rather an ineffective proxy. Why would a CEO be allowed to set their own package? NEDs volunteer to decide pay (ie., RemCo) – therefore, they need expert advice. The analogy I would draw is looking out of car windows to the side, to see what other cars are doing - calling it a benchmark - almost mathematical formula for higher than normal inflation in executive pay' (ExecRemConsultant: 15)
- UKRemCoAdvisoryScene: 'Beauty parade for RemCo advisory appointments: Report viewed by internal management, then three or four ExecRemConsultants are presented to the RemCo for their decision. It is entirely the RemCo who makes the decision. You can be cut out before you have even got to the RemCo, if you have a certain reputation... and they don't want that reputation' (ExecRemConsultant: 19)

- UKRemCoAdvisoryScene: '2017 pay policy votes: It's going to be very difficult resources-wise, but in a RemCo that's what the policy was designed for, so you set your three-year policy and you see how it pans out in terms of your annual advisory vote. If you are not satisfied, you should have enough information to consider how you would change it for the next three years' (ROO: 5)
- USCompCoAdvisoryScene: 'ISS were massively empowered, Glass Lewis less so, by Dodd-Frank, the SEC and Say-on-Pay. Companies are trying to balance the tension in motivating their executives to create shareholder value in the current context of a quasi-regulator like ISS. Many practices that were perfectly fine, if not great, practices are disappearing. Mega-grants are very awkward now due to Say-on-Pay. Feature that has been homogenised. Another is stock options have been dramatically reduced because ISS and a very small group of institutional investors with their pension funds don't like stock options' (ExecCompConsultant: 3)
- USCompCoAdvisoryScene: 'I tell people at social gatherings and cocktail parties I am an HR consultant. I don't tell them I am an ExecCompConsultant because all it does is end up with me being backed into a corner and people wagging their fingers at me telling me what an awful mess we have got around executive compensation, and implying that I am a contributor to the process, or complicit in all of that. So I stay clear from telling people what I actually do for a living' (ExecCompConsultant: 4)

- USCompCoAdvisoryScene: ‘In short I actually think that while we were entering a new kind of uncharted territory for executive compensation consulting in the States, it’s all turned out rather fine, and certainly I think at worst it’s neutral to what we had before and probably at best there is an improvement’ (ExecCompConsultant: 4)

**4.3.2. RITG1:SQ1, RITGST1 – ‘What is your view on a shareholder vote being held on the appointment/retention of ExecRemConsultants [Sub-coding: ‘SVExecRemConsultants’]?’**

- SVExecRemConsultants: ‘2009 draft Labour legislation for shareholder approval requirement in respect of ExecRemConsultant appointment to Big Bank RemCo advisory posts: I don’t think it’s a good idea. I’d add on the piece which is that actually shareholders don’t choose the auditors, the company does and the shareholders ratify it. And when you’ve got a market of four providers, it’s not that big an issue. But I also think that the framework against which you assess what an auditor does is much more a prescribed framework. Shareholders have no insight into what ExecRemConsultants are actually doing for present fees, or indeed the level of work carried out. The role is varied by reference to the organisation that’s commissioned the remuneration advice’ (CoyExecRemSpecialist: 9)
- SVExecRemConsultants: ‘I think it’s more bureaucracy, I’m not sure it adds anything. The only justification for doing it would be that it would make RemCos look at their advisors and make sure they were satisfied they were getting the best advice. It’s good practice to go out to tender on these things every three or five years, and people, I think, can get a bit lazy and not do so, and if that’s another way of doing it, well, so be it. But I think doing it every year, it’s just another burden’ (CoyExecRemSpecialist: 9)

- SVExecRemConsultants: ‘Politicians are short-termers. What I saw of them in one context did not impress me one whit, and the civil servants don’t understand business, most of them, because when they get to business, it’s usually when they have left the civil service and that may be the reason that I can’t imagine there was a huge amount of pressure amongst the individual investors to do it’ (CoyExecRemSpecialist: 9)
- SVExecRemConsultants: ‘It comes down to more micromanagement of businesses by shareholders. Impractical and inappropriate. I would like to see ExecRemConsultants more involved in creation and certainly the perpetuation of strong cultures which drive businesses and reward for appropriate behaviour—in a genuine, powerful business culture way. Involved with a degree of subjectivity about a specific business. I don’t want them playing a quasi-audit role...just bringing a set of templates to compare the company’s behaviour to. I believe radical ideas on remuneration can sometimes transform the performance of companies. Properly directed and remunerated individuals can make very big differences to corporate performance. ExecRemConsultants can play a dynamic business role, rather than a policing one. Policing role? Not specific shareholder approval function. It’s a kind of expanded role for Audit Committee on policing front?’ (NED: 6)
- SVExecRemConsultants: ‘If shareholders had a vote on the appointment of the ExecRemConsultants, why not of those on the lawyers?’ (ExecRemConsultant: 4)

- SVExecRemConsultants: ‘From my perspective, it’s a bit of a misguided proposal in the first place. We have a very different role from that of auditor. The auditor has the final say on whether they agree with the accounts that are presented, and they write an opinion saying that they do agree the accounts are true and fair reflection of the business, at the time they sign the accounts. There are many occasions when we give advice, and we recommend something that the RemCo decides to override, and for good commercial reasons, decide they want to do something we have not agreed with in the first place. So it is difficult for shareholders to have any of that insight, because they’re not in the meetings. From the perspective of them having the ability to vote every year on the individual advisors to the RemCo, it seems a little perverse that without any statutory authority for us to make our decisions, or views heard, how they would make that informed decision about what we were saying in a closed room. In the same way, you don’t vote on strategy consultants or PR consultants, or anyone else the Board appoints to advise them to do the job’ (ExecRemConsultant: 19)
- SVExecRemConsultants: ‘I don’t think regulation is always a good thing, but I do think that governance is a good thing, and I think accountability is a good thing. Do I think that Boards should love ExecRemConsultants who are imposed on them by shareholders? No. I think that if they get it wrong, shareholders should get rid of the Board. The Board should have full flexibility and discretion to make sure it is appointing the best advisors to help it in its role. There is a real danger the Boards with ExecRemConsultants imposed on them will actually relinquish a level of independence, or accountability and responsibility, so it might actually be tempting to say, well...we had these people imposed on us, they told us what to do, what we could do. I think it’s a very bad idea’ (CoyExecRemSpecialist: 11)

- SVExecRemConsultants: ‘Strongly against shareholder approval being sought for appointment/retention of ExecRemConsultants. Five out of five against on your continuum’ (CoyExecRemSpecialist: 12)
- SVExecRemConsultants: ‘Waste of shareholders’ time. If something like Chris Philp’s Shareholder Committee concept came in and there was a forum for shareholders to be more involved and accountable, then in theory, it could happen, but as things currently stand with remote shareholders having diverse views, I can’t see how it would possibly work’ (ExecRemConsultant: 17)
- SVExecRemConsultants: ‘And they’d all cut each other’s quotes to do this work; the answer is given of the 50, actually, only three are probably big enough and they’ve got the right people and the knowledge that would actually be able to do the work’ (CoyExecRemSpecialist: 1)
- SVExecRemConsultants: ‘I don’t think it is necessary to seek shareholder approval for the appointment of ExecRemConsultants’ (ExecRemConsultant: 1)
- SVExecRemConsultants: ‘I don’t think the role of the ExecRemConsultants is in any way comparable, really, to the role of an auditor’ (CoyExecRemSpecialist: 2)
- SVExecRemConsultants: ‘I think, in broad terms, not a good idea, but I’d like to explain and, you know, explore it a little bit more’ (ROO: 1)
- SVExecRemConsultants: ‘To essentially create a situation where ExecRemConsultants are appointed at the behest of the shareholders, as opposed to an advisor to the business, I think is a different step altogether, and I don’t think it is one you should take’ (ROO: 1)

- SVExecRemConsultants: 'I don't think, in my view, it would assist shareholders in appointing ExecRemConsultants in the same way as auditors. I think ExecRemConsultants tend to be appointed and unappointed on a more regular basis than auditors' (City Lawyer: 1)
- SVExecRemConsultants: 'I'm not sure it needs to go to shareholder vote. Perhaps *in extremis* we might end up there one day, but, like in the banking system, it was proposed' (ExecRemConsultant: 2)
- SVExecRemConsultants: 'I mean, it's one of those things which appeals to me in theory. But, as you mentioned earlier, as there's only three or four competitors out there, unless you kind of adapted the approach, I think it was with accountancy, where they're the top five. You would have to kind of say: "Look, you can't just have a market where most of the firms have got one of the big three, or was it the big four, of ExecRemConsultants?"' (ROO: 2)
- SVExecRemConsultants: 'You'd just be, kind of, pass the parcel' (ROO: 2)
- SVExecRemConsultants: 'Our job is nothing to do with the shareholder, actually. Our job is to support. An ExecRemConsultant firm, I guess, comes in many different guises. This firm is pretty much exclusively an advisor to RemCos. Our client is the RemCo. I think we need a relationship of confidence/trust, where I can say I think you are making a mistake here, you are being too cautious. More often than not it is the opposite of that. Do I think we should be approved by shareholders? No, because I don't think it is anything to do with shareholders. Should the

advice be published or should it be stated where they give advice opposed to that? I'm very firmly opposed to that. How on earth does the CEO end up with a 10% salary increase? It's ridiculous. I bet you a pound to a penny that the advisor got it down to X from 2X, if you see what I mean' (ExecRemConsultant: 4)

- SVExecRemConsultants: 'I suspect the power to remove an auditor is rather more useful, in the negative to remove ones that they are not happy with, rather than appoint one in the first place' (ExecRemConsultant: 3)
- SVExecRemConsultants: 'I think the problem with that from my perspective is the kind of lethargy of some of the shareholders. All that would happen is that shareholders would rubber-stamp the recommendation. If you haven't got many ExecRemConsultants to choose from, it's like the audit, isn't it? It's just going to rotate around the same four or five' (City Lawyer: 3)
- SVExecRemConsultants: 'I would have no problem with ExecRemConsultants being appointed by shareholders. I think it is the shareholders who would have a problem with it. The shareholders argue that they want to hold management to account, but if they were to appoint the advisors to the RemCo, some of the shareholders feel that brings them inside the tent' (NED: 1)
- SVExecRemConsultants: 'ExecRemConsultants are not going to impact on the viability of the business directly when you look at the quantum. The whole shareholder problem in the UK is that they are not engaged, and therefore you are left with a handful of shareholders who take an active interest in this. The focus in the press is on the very large companies, but you get outside the top companies and shareholders are very engaged' (NED: 1)

- SVExecRemConsultants: 'For me, it's not really a priority that shareholders should have a vote on the appointment of the ExecRemConsultants. I can't think of a situation where an investor would want to vote just on the advisor' (ROO: 4)
- SVExecRemConsultants: 'At a purely theoretical level, I would be in favour of the appointment by shareholders, but I think the position of the ExecRemConsultant is quite different from that of an auditor. You're a business advisor. It's a matter of judgement on the spectrum of what is going to help the company and shareholders on the one hand, and what is going to screw it up on the other. By making the senior executives very rich, you may bust the company. It's to do with what makes people tick, it's to do with their motivation, all of these things come with it quite apart from the maths and the money' (ExecRemConsultant: 6)
- SVExecRemConsultants: 'I think we are completely different from auditors. Shareholders are already approving packages that are there on the table' (ExecRemConsultant: 5)
- SVExecRemConsultants: 'I don't think it's gone anywhere, really, because there's no appetite for it to go anywhere' (CoyExecRemSpecialist: 6)
- SVExecRemConsultants: 'Far to the right on your continuum. I don't think that we should be bound by that because we are just advisory, that's the whole essence of what it is. You're not making decisions for the client. I just feel it would be extra red tape that would take up much more time and money on every side and I don't know if you'd gain much from it' (ExecRemConsultant: 7)

- SVExecRemConsultants: ‘No, I think it’s a step too far. I think the annual report and accounts is the key way that shareholders understand what’s going on in the business so that it is very important to ensure that the annual report is as it says it is. Reporting regulations and practice have moved on since the Labour Government, so it is now a requirement for fees to be disclosed in the remuneration report, so if there was an issue with either the fees or ExecRemConsultants, then we will get more visibility about the advisors, who the advisors are, and what they’re being paid, than we did back then, because it wasn’t a reporting requirement. I suppose there has been maybe some call for additional visibility and wider fees paid to that ExecRemConsultant. But I don’t think that’s certainly in my considerations with my members, or even the Government at present time; is not particularly on the agenda at the moment’(ROO: 6)
- USSVExecRemConsultants: ‘Not a good idea, but mandatory rotation of ExecCompConsultants might be thought about instead. Many ExecCompConsultants, though, have excellent, long-standing appointments, and this is to the benefit of everyone (including shareholders)’ (ExecCompConsultant: 1)
- SVExecRemConsultants: ‘I think shareholders have the opportunity, if they are truly interested in the business, to reflect their views in their votes, contacts and discussions with the company in a variety of ways. I’m not into this micromanagement by shareholders. If there are things that are seriously wrong, you change the fundamentals of the company, which is basically the management, and move into a different situation’ (NED: 2)

- SVExecRemConsultants: 'It ought not to be a shareholder approval issue. Shareholders delegate management matters to management. Shareholders can take control of individual issues, if they feel sufficiently strongly about it. One gets the impression that, on the whole, they haven't wanted to do more, to some extent quite understandably'  
(City Lawyer: 4)
- SVExecRemConsultants: 'I don't necessarily have that high a regard for institutional shareholders and I think they are in a bit of a mess too. They've got the fund managers themselves, who are obviously interested in optimising or at least meeting their tracking error targets, and then you've got these corporate governance people who are a sort of industry who have to justify their existence in some way. And also, issues from shareholders who are intermediaries, so have their own clients and those clients themselves have got political views – some of them, those clients, are just naturally left wing and there is a strongly unionised population of pension funds. I'm not in favour of shareholders appointing ExecRemConsultants, not so much on the technical point that they are unlike auditors, but I actually think the NEDs are the people responsible for this' (ExecRemConsultant: 8)
- SVExecRemConsultants: 'I'm not sure what would be gained by approval because ultimately, you would end up with the same choice of people. Unless the company had made a completely bonkers appointment of someone nobody had ever heard of. I can't see that it would ever be turned down, ultimately' (CoyExecRemSpecialist: 7)
- SVExecRemConsultants: 'I would find that a bit difficult to accept because I think for the amount of fee involved, it would be difficult for the shareholder to say yes, they're worth it' (ExecRemConsultant: 9)

- SVExecRemConsultants: 'I certainly would be open to that idea if there was a fiduciary statutory duties kind of responsibilities and framework under which ExecRemConsultants could operate which were set out in the same way as an auditor. It would be very difficult and unhelpful to require the ExecRemConsultant to be approved by shareholders where there wasn't a clear framework in which to operate. Auditors, because of the framework in which they operate gives them strength in the way they can deliver their advice, ensure their advice is either acted upon, or if it's not, they're able to clearly flag what their advice is more broadly externally. You'd have to replicate something of that framework for it to be effective in the area of compensation. Auditors have much more leverage over the company to take their advice and act upon it.' (ExecRemConsultant: 10)
- SVExecRemConsultants: 'In many ways, thank God, they did not introduce that rule. There are a number of consultancies to executives and to the Board, and to appoint each individual, then giving the right of veto to shareholders, would be over-bureaucratic and a governance nightmare. I'd give shareholders more of a right to have an influence over the outcome of remuneration schemes, not the process' (CoyExecRemSpecialist: 8)
- SVExecRemConsultants: 'I don't think ExecRemConsultants advisors are like auditors. Indeed, auditors cannot give remuneration advice. Having said that, I see no difficulty in a vote along the lines of that which is required for auditors (give directors authority to appoint the auditors). So I don't think there'd be any new objections if similar wording were to be used for ExecRemConsultants. But I do see the functions as being

fundamentally different. Auditors have an independence to the shareholders, to attest to their opinion on the financial statements. ExecRemConsultants have no such obligations in their work' (ExecRemConsultant: 12)

- SVExecRemConsultants: 'Totally against the idea. ExecRemConsultant do not assess remuneration policy against an external standard approved by shareholders, they're appointed to advise the RemCo. It's up to shareholders to use proxy voting agencies if they wish' (ExecCompConsultant: 2)
- SVExecRemConsultants: 'Shareholders should have a vote on appointment/retention of ExecRemConsultants. Similar concept to present annual vote on directors. Big Four lend regulators resources for a particular task (for example, FCA in respect of the Remuneration Handbook) - it could be argued that this compromises independence/leads to possible asking of favours. Regulatory environment now driven more by fear, which could be worse than the original problem regulation brought in to solve. Big banks should not have been bailed out in 2008' (ExecRemConsultant: 14)
- SVExecRemConsultants: 'I think it's an absolutely horrific idea...pushing decisions further and further away from where they should be taken. Putting them in the hands of people who have no competence or understanding of the subject matter, or indeed, the industry. The investment industry works incredibly differently from the rest of the industrial world' (ExecRemConsultant: 15)

- SVExecRemConsultants: ‘Think about the overall good of the corporation, not just current large shareholders, but for all shareholders. The only result you’d get is that you would be down to four or five ExecRemConsultants like with the auditors, because the shareholders couldn’t support/keep relationships with more. Small handful of advisors. Independence would go out of the window. It would all be about how you manage the large institutional investors’ (ExecRemConsultant: 16)
- SVExecRemConsultants: ‘I think it’s a pretty terrible idea, actually. Even naming ExecRemConsultants - you are not always appointed, you know. If you have clear role as an appointed person, then that’s okay. Lawyers and auditors have opportunity to make their views known in the annual report, ExecRemConsultants don’t’ (ExecRemConsultant: 18)

***4.3.3. RITG1:SQ1, RITGST2 – ‘What is your view on a shareholder annual binding vote on remuneration [sub-coding: ‘SABV’]?’***

- SABV: ‘So I think my instinct would be any kind of transparency or control or pushback or vote on an annual basis just seems to me like a lot of box-ticking and additional red tape. Whereas that energy and time, I think would be better served to look at the overall, total compensation structure of the senior positions, and just get more rigorous about value generated, reward paid, and ideally, over the longer term (CoyExecRemSpecialist: 1)
- SABV: ‘I don’t think necessarily having an annual binding vote is going to make anything better. It might make companies more nervous, which you may say is a good thing. Nervous of doing anything that would be seen as an outlier’ (ExecRemConsultant: 2)

- SABV: 'Annual binding votes. Or having somebody working on the Board, etcetera. Each of these on their own is probably not going to make much of a difference. You have got to have a multiple approach' (ROO: 2)
- SABV: 'I'm not sure in its current form, unless you have some sort of threshold where you had to get 75% or 65% or something, because at the moment, most votes have gone through' (ROO: 2)
- SABV: 'If you go down the FTSE the amounts of money on offer are considerably smaller, and if you introduce these rules, is it going to be for all publicly listed companies, where in many cases these problems do not exist?' (ROO: 2)
- 'SABV: 'I think it's too early in the current regime to fully assess its merits and benefits' (City Lawyer: 4)
- SABV: 'I don't really understand how it would operate...you want to give someone a bonus and then you have the chance for that to be voted down, what do you then do? Do you withhold it?' (ExecRemConsultant: 7)
- SABV: 'Annual advisory vote, moving to a binding one? I think it's a poor idea. Again, it's getting into a very detailed bit of a company's activities, which, in the grand scheme of a company's activities, is relatively small. Unfortunately, it has headline value. There are other ways of dealing with things. Changing the management and the Board' (NED: 2)

- SABV: 'Annual binding vote on remuneration...the difficulty is how that links into the contractual entitlement for executive directors. Better way of doing it than shareholder vote on ExecRemConsultants (if on the latter, shareholders say: "No, no, no" - then who do you end up with?). Give shareholders more rules where they can say they don't like the remuneration. In publicly quoted companies, shareholders are sometimes really poor. What I mean by that is they whinge a lot, but they don't actually do enough. They have a reasonable degree of rights already, and don't make the job of the CEO/Board more difficult because you can't be asked to get off your backside' (CoyExecRemSpecialist: 8)
- SABV: 'Sceptical about the idea that more binding votes are needed...if we were to go down the Australian route, we would need another remedy...are we really asking shareholders to micro-manage in this way? There is a danger that the RemCo/Board could see such a vote as absolving them from making the right decisions. Would an annual binding vote be on single issue? Bonus payments? Pay inequality is a broader economic phenomenon than simply pay in listed companies. Government has a political problem, but is the Government narrative of pay being massively out of control due to lack of shareholder oversight going to result in annual binding votes, bringing about a change in its UK executive pay?' (ExecRemConsultant: 11)
- USSABV: 'We are definitely not a million miles away. I just think it is so obscure and minor from a Board perspective, and I don't know that anyone will focus on it, but it is definitely possible. I would put it at definitely less than 20%, but certainly not zero. I know the Swiss have a binding vote on Say-on-Pay. The nature of what they're voting on in Switzerland is very different to the US - it's literally a cap on the total

amount paid and there's no constant definition of what that means, so there is some room on that, but it is a hard cap. It is very problematic if someone accuses you of exceeding that cap. I think it could be a felony' (ExecCompConsultant: 3)

- SABV: 'Perhaps we'll have an annual binding vote as well? Well, yes, that's one of the options. How some clever person will find their way around the contractual implications of that I'm sure' (ROO: 5)
- SABV: 'I think you'd have to be terribly careful. I think it could get quite divisive because I think shareholders are as capable of misbehaving as the executives, etcetera. You could lose a really good CEO for all the wrong reasons, and that does even less for shareholder value. Let's put the onus back on the RemCo being sensible and discipline them when it all goes wrong' (CoyExecRemSpecialist: 5)
- SABV: 'Theresa May's putting a large burden on the public companies, and she's not thinking about the privately-held ones, where misbehaviour is probably bigger and there's no shareholders, and it's just the poor old employees who get clobbered' (CoyExecRemSpecialist: 5)
- SABV: 'Shareholders don't want to get more actively involved and they're not resourced to do so. And that's even the ones that are, that take the stuff seriously. We're in a place where the politicians have got to do something. The only other viable option is a binding vote on variable pay, so the bonus accumulated in LTI to be granted going forward. I think that's also very difficult. It's either Norway or Sweden, where apparently that structure was introduced. The votes against have gone down.'

Everybody can say what they think with an advisory vote without actually losing the CEO. I think so much of this stuff is about beware what you would wish for and be very clear about what it is you are trying to achieve' (NED: 5)

- SABV: 'Trouble is, it is an area that lends itself to a quick fix, and so much of where we are is almost accidents of history (for example, with performance share measures, the threshold used to be at the very beginning payouts between 30th and 70th percentile, until institutional shareholders introduced no payouts below median). It's extraordinary, really, when you think about it. Every company devotes enormous amounts of energy and intellectual firepower to differentiating his business strategy. And then when it comes to pay, they're fighting for the middle of the pinhead' (NED: 5)
- SABV: 'If we can get onus to engage properly with Boards, then a binding vote on remuneration has potential, but until then it's just not a good idea. A large number of small shareholders do not engage/vote, so a few big shareholders can shape the outcome of the vote. The shareholder engagement issue needs to be sorted out first, before consideration of binding vote requirements, and also whether shareholder approval might be made obligatory for appointment/retention of ExecRemConsultant' (CoyExecRemSpecialist: 10)
- SABV: 'You have that danger with shareholders/a shareholder vote. I do find myself slightly on the horns of a dilemma here because I do think there is a lot of advice in this area. There is a lot of payment for failure. Expectations of remuneration for FTSE 100 CEOs, have got a bit out of whack. I can understand the sentiment from outside the business that says: "No, you have performed poorly, you don't deserve this." Purely giving shareholders a lot of power, though, to look at things in an informed

way, and then to have them disrupting corporate strategy and potentially well thought out, effective remuneration programmes fills me with a sense of difficulty' (NED: 6)

- SABV: 'The problem that runs at the heart of this is the extent to which NEDs, as you move up the NED scale, appear to become almost less objective and less critical. More puppet-like in their behaviour, if you will. At lower levels, NEDs are engaged. PRA environment now, no longer acceptable for NEDs to be puppets. This needs to be driven through FTSE 100 companies – close relationships between Company Chair, CEOs, and the waving through of remuneration arrangements and things because everyone's in it together is uncomfortable and somehow needs to be disturbed. Tone of the business is driven by relationships between the company's Chair and the CEO' (NED: 6)
- USSABV: 'UK three-year binding vote on policy, plus annual binding vote on implementation? Right now I don't see an event in the United States that would force things to move in that direction. You need a crisis of some type. Crisis in confidence, social strategy, or political upheaval/seminal event to create change like that. Average Say-on-Pay vote in the States get 92% support. Investors are satisfied with the management of executive compensation of the companies they own. Whether or not the public are satisfied is an altogether different question, but investors who are the ones casting the Say-on-Pay votes, every indication would be they are reasonably happy with the way things are going' (ExecCompConsultant: 4)
- SABV: 'Nobody has been particularly clear about the problem we're trying to solve. Do we believe corporate governance in the UK isn't powerful enough and shareholders need more votes, then it will be better? What does better look like? The problem is that no one really wants to talk

about it, but quantum is perceived to be the problem. By the politicians in particular. But they don't want to actually address that head-on. My view is that giving shareholders more votes will not help. If they don't like the NEDs making the decisions, they can vote them out, and they never do. There's more than enough ways in which shareholders can express dissatisfaction with what's going on in remuneration, and if they're unhappy with it. 80% of companies get 90% support, and 90% of companies get 80% support. Companies will be less likely to vote against a binding vote because it has more impact. What do you do if you lose a binding vote? With advisory vote, companies the following year go up 15% points. The persistent offenders are two or three companies a year. And rather than create this entire industry that impacts every company that operates in the UK, we need to sort out just the two or three companies. Shareholders need to elect a new bunch of NEDs if they want' (ExecRemConsultant: 19)

- SABV: 'You never know what you're voting on. Any of the decisions could've triggered any one shareholder to vote against. But none of them, in isolation, might have been enough to lose a vote. If you lose a binding vote, do you stop everything? What is it you stop with a binding vote? For non-binding vote, you go out and talk to your shareholders and there's probably a few things people are upset about, and you can fix them for the following year. Since 2012 legislation has come in, pay hasn't gone up at all in terms of the opportunity level available. Share prices have gone up, so therefore what's coming out of these plans has gone up. The legislation is working. This seems a poor time to decide to rewrite it again. It just seems a trigger-happy reaction to the Brexit vote, rather than a well thought through policy initiative around what problem we're trying to solve' (ExecRemConsultant: 19)

- SABV: 'We recommended the yellow card and red card system so that if you get less than 75% support, it triggers a set of consequences the following year, if you manage to get it again' (ExecRemConsultant: 19)

**4.3.4. RITG1:SQ1, RITGST3 - 'What is your view on pay ratio disclosure [Sub-coding: 'PRD']?'**

- PRD: 'I don't think firms have helped themselves here. I think, where you see increasing ratios between CEOs' remuneration, and remuneration for what you might call the ordinary employee...I think you are, you know, you are setting yourself up for a fall' (ROO: 1)
- PRD: 'I personally think they don't mean a thing. And I just think they are a bit of a waste of time. It's not going to change how people think about your company necessarily, or it might for all the wrong reasons' (ExecRemConsultant: 7)
- PRD: 'I've got every sympathy with people asking to produce multiple of pay for whatever, it's a difficult thing to do' (NED: 4)
- PRD: 'Again, I think there will become an industry to work out how to breach it. I think top executive pay is out of control. I think the ExecRemConsultants have a part to play in it because they do the benchmarking. Everyone wants to be above the median, and therefore the median is forever going up. It's just a fact of life. It's not to blame the ExecRemConsultants, but that is a consequence of having that going on. It's absolutely unacceptable for anyone to be paid below the median. I'd love to think there's an easy way to control top executive pay. I think it

has contributed to a certain extent to the global political upheaval going on at the moment, this pay differential. Didn't someone do some research to say once it gets above a certain level you can expect unrest?' (CoyExecRemSpecialist: 5)

- PRD: 'I think Theresa May is in a difficult place. The ExecRemConsultant role is to come up with ways off that particular window sill. She's out there with her kitten heels hanging over the ledge at the moment' (NED: 5)

**4.3.5. RITG1:SQ1, RITGST4 - 'What is your view of workers on the BOD [Sub-coding: 'WOB']?'**

- WOB: 'You can't just stick somebody on the Board and hope for the best. You've got to give them support' (ROO: 2)
- WOB: 'I've always had a negative view of it. But having seen it in action with pension schemes, I increasingly think it is a good idea. The right to have a balanced professional in there and having the debate is a good idea. It works with trustee boards; why can't it work for RemCos?' (CoyExecRemSpecialist: 4)
- WOB: 'I would say thumbs down to workers on the Board. How can the RemCo operate effectively knowing they have someone in the room who is not an independent?' (ExecRemConsultant: 7)
- WOB: 'I am not in favour. I have enough experience of works councils to know that once something is in the work council's knowledge, the whole company knows. And I don't think we've got the mindset amongst our workforce employee representatives to take a WOB Board member seriously' (ROO: 5)

**4.3.6 RITG1:SQ2 - 'Do you feel that the advice provided by ExecRemConsultants appointed to advise RemCos is genuinely independent and objective [Sub-coding: 'GI&O']?'**

- GI&O: 'I think they are genuinely independent and objective' (CoyExecRemSpecialist: 3)
- GI&O: 'Perhaps a Boutique ExecRemConsultancy might be better placed to provide the independent advice, because it doesn't have any axe to grind' (ExecRemConsultant: 1)
- GI&O: 'Regarding, you know, on the question of independence and objectivity, I think there are examples where that doesn't happen, and I think it's, clearly, I mean, we've come across cases where that doesn't happen' (ExecRemConsultant: 1)
- GI&O: 'We've never seen anyone say that it isn't objective and independent, but I'm not quite sure what standards you have. This is all going to be anecdotal. When I hear appointed ExecRemConsultants say that they've known the Chair of the RemCo before, I'm never sure whether that is an example of it being a closed shop and lack of independence and chumminess or whether it means that the two of them will work together. The RemCo Chair respects their opinion and so he's brought them in for that' (City Lawyer: 2)
- GI&O: 'I worked at an ABC firm as an ExecRemConsultant for several years and never had any conversation or indication that our colleagues at the firm were not being independent and objective. So they were very careful to back up the data' (CoyExecRemSpecialist: 1)

- GI&O: 'I think the intention is clean. I think the methodology is good and elaborate. But I think in the relationship it becomes easy to collude. Not to the extent of being illegal or not objective'. (CoyExecRemSpecialist: 1)
- GI&O: 'I think it is a power-distance thing. It's a power relationship. They're paying the bills. You're the ExecRemConsultant. They're the boss, as it were. So it's a difficult position to be in. It boils down to the integrity and the force of character of the ExecRemConsultant' (CoyExecRemSpecialist: 1)
- GI&O: 'Yes I think I probably do. I have never sensed or experienced any impression that the advice I've been given in a remuneration context had been in any way coloured by, or for want of a better word, trying to butter up the Board in order to retain some degree of favour elsewhere' (ROO: 1)
- GI&O: 'I think my experience is that the teams of people that I've worked with have genuinely been high calibre and approached it in a professional manner and were coming at it with an independent and objective mindset' (ROO: 1)
- GI&O: 'My slight, my only comment to that is on the objectivity point of view, which is that very rarely, in my experience, or anecdotally elsewhere, does a RemCo's appointed ExecRemConsultant come and say: "You know what, you're really paying yourself far too much"' (ROO: 1)

- GI&O: 'I think ExecRemConsultants are somewhere between the midpoint and perhaps more of the conflicted continuum. I think there are individual ExecRemConsultants who will actually take a step backwards and look at the company in a very independent way, and in a focused and tailored way for the client. However, I think there are a number of consultancies who come up with a structure, and then, dare I say it, peddle that structure to all the same companies within that same sector, or within an index of the FTSE. We have seen UK incentive arrangements becoming very homogeneous' (City Lawyer: 1)
- GI&O: 'I can honestly say that in my career I've never felt that the firms I have worked for would not have backed me up in giving a client an answer that particular individual or RemCo didn't like. If it was, if I could argue my case, and it was agreed that I was...that I had a rational argument, I don't think any firm I worked for would not have supported me. And equally, I think that if I had ever been inclined to give in to...having my arm twisted by a company, a client, I don't think the firm would have supported me in that' (ExecRemConsultant: 2)
- GI&O: 'I always felt that the firm's good name was far more valuable, both to the firm, and to me an employee or partner of that firm, than any single client, or keeping any individual happy and that particularly, could ever justify not acting with integrity and independence' (ExecRemConsultant: 2)
- GI&O: 'The ExecRemConsultant often forms the honest Indian in the middle, who can bring some objectivity, whether that be through data, or war stories, or experience or just sitting there and trying to think through the unintended consequences that might follow' (ExecRemConsultant: 2)

- GI&O: 'I've never felt conflicted while working for either a Big Four or an ABC firm. I never felt under any pressure to give them the answer they wanted' (ExecRemConsultant: 2)
- GI&O 'I mean, they do come across as credible and independent. I just wonder whether they think well there's not much point talking about these issues because this is what the company wants, this is what the RemCo wants, and this is what the investors expect. And I think, what we have found with behavioural science research is perhaps previously we have been pitching things to the wrong audience. We've been pitching at HR professionals, who don't have a particularly large role in executive remuneration decision-making. It's done in almost a bubble, the remuneration bubble, and is done by the NEDs and the RemCo's ExecRemConsultants... the role of HR or Reward is servicing the RemCo...and the evidence of what's going on in the rest of the organisation, which may not be used' (ROO: 2)
- GI&O: 'Well, I suppose it's around independence of attitude isn't it? You can have an independent frame of mind, and you can tell it as you see it is. I think, the question is, to what extent the buyers of the services of ExecRemConsultants want to hear what's being said to them' (ROO: 2)
- GI&O: 'I don't think there's a lack of independence. It might be a lack of competence or guts, but those are different questions' (ExecRemConsultant: 4)

- GI&O: 'They try to be as independent and objective as they can. In my experience of ExecRemConsultants as a group, and as individuals, they genuinely do try to be objective, to give facts and to give advice. I believe they are people of both high integrity; normally ethically and professionally. However, it is a very small group of individuals who advise a very large number of companies. In doing so, they are well aware that the NEDs of one company are often executive directors of another, and that therefore their pool of clients, and their income, has a dependency on not upsetting NEDs. You tend to get a small number of advisors who will meet the same NED in three or four companies, and that NED might be the CEO of one' (CoyExecRemSpecialist: 4)
- GI&O: 'It is a brave, and perhaps a very brave appointed ExecRemConsultant, who will really challenge a RemCo's decision-making processes. And I've seen that in action. And I've seen a few of these brave consultants in action as well, where they have fundamentally disagreed with the RemCo and made the point and often followed that up, either by re-challenging the decision, or writing on behalf of their employer, the consulting firm they work for. I've seen that happen, but it happens too rarely. I generally find the ExecRemConsultant will support RemCo decisions, rather than be independent and truly challenge it. There's too much of a relationship of the income of the advisor and the person paying the fees, all knowing each other' (CoyExecRemSpecialist: 4)
- GI&O: 'Pension trustee boards - the mindset of an actuary is that the pension fund pays for me. Mindset of most ExecRemConsultants is not the shareholder pays for me, it's that the company pays for me' (CoyExecRemSpecialist: 4)

- GI&O: 'Whether or not I feel that the advice of ExecRemConsultants is independent and objective, I would say that by and large it is...I think the majority of companies that I see are mindful of their responsibilities under the RCG's VCC, and are keen to discharge them'  
(ExecRemConsultant: 3)
- GI&O: 'Yes I think the ones that I've seen who are good will certainly stand up to challenges, stick by their recommendations around performance and targets and things like that, for sure. I suppose my concern around ExecRemConsultants is more around the nature of the work they're trying to do and how it seems to replicate the same recommendations over and over again, particularly performance conditions and things like that' (City Lawyer: 3)
- GI&O: 'I would say the great majority of ExecRemConsultants are genuinely independent and objective. In the mid-1990s it was rather 'young'. It's not a profession, but a service' (NED: 1)
- GI&O: 'I think it's exaggerated to say it's a profession because there's no professional qualification. It has morphed in the UK from being dominated by the ABC to now probably being dominated by two of the Big Four. The reason I think ExecRemConsultancy is genuinely independent is that if you're in a Big Four firm it's regulated by the FRC and ICAEW. Annual testing and each individual is scored on this and must pass in order to continue providing their services. So at least within the accounting firms there is some regulation around the provision of professional services, rather than specifically around remuneration services, but it does mean that individuals have to meet a certain standard. In the ABC firms this does not apply to the remuneration side of their business' (NED: 1)

- GI&O: 'It's hard to know precisely. There are issues to do with potential conflicts which mean that they are maybe not as independent as they would like to be, but we have to assume that the advice being given is genuinely independent and objective. That's the obvious reason why an ExecRemConsultant would not want to give advice of that nature given the risks of it all going wrong. One of the areas where there is a degree of question mark sometimes is on something like benchmarking. Occasionally, you may want to test the consultants on the way that the right benchmarks have been used. Is it truly objective advice provided by the ExecRemConsultant? They've typically got a reason why they've done it that way' (ROO: 4)
- GI&O: 'I do understand that there has been a very strong move in the USA to separate this type of consulting from other types of professional advice to client companies and that has to be a step in the right direction so that there is not a conflict in trying to protect the income streams by being overgenerous in the incentive and remuneration field. I think that progress on that front has been slow in the UK and I would suspect that there is probably a lot of overlap still' (ExecRemConsultant: 6)
- GI&O: 'I think that so much actually boils down to the individual ExecRemConsultant as well. In a relatively unregulated business or profession it is possible you have a freedom to act strictly in the best interests of everyone on the one hand or to act cynically to talk up senior executives' pay to the maximum degree possible and there are certainly people in my experience who operated like that' (ExecRemConsultant: 6)

- GI&O: 'I didn't, and I hope I influenced the people who worked with me not to behave like that. Perhaps the answer is to make this a more regulated profession along the lines of law or medicine. My mind slightly boggles as to how you would do that, quite honestly' (ExecRemConsultant: 6)
- GI&O: 'Caused me no problems and no one on the actuarial side of the business put any pressure or even a scintilla of a suggestion to me that I should talk up somebody's pay in order to protect the income of other parts of the business. Certainly not' (ExecRemConsultant: 6)
- GI&O: 'Cross-selling - I thought it made complete sense to me to provide our clients with a total service. That's where I was coming from and I don't think it interfered with the standards that I or others tried to keep at all. No, it's a good thing' (ExecRemConsultant: 6)
- GI&O: 'I think that a Boutique firm can have just as much conflict as one that is trying to boost or maximise income or protect the income from other services provided, but the reason I say this is that I have seen ExecRemConsultants who will nudge and wink at their client on the basis that they will talk up the senior people's pay package to the maximum possible degree. And why do they do it? They will get retained and paid. Well to me, that's a conflict of interest. Does that become worse if you have colleagues who will benefit from unnecessarily generous advice?' (ExecRemConsultant: 6)

- GI&O: 'Well I'm not naive enough to suppose on occasion it doesn't happen. I suppose it does. I don't think anybody hinted at it in the firms I worked for. The converse worked though. If one had an actuarial colleague who was in charge of a particularly lucrative account they would quite probably be reluctant to let you anywhere near the client because you might screw it up and it might adversely affect his patch. So I've seen it work that way round' (ExecRemConsultant: 6)
- GI&O: 'I think it is genuinely independent and objective. I've been fired from appointments because my advice has been genuinely independent and objective. I've resigned from some as well. What are the questions you are being asked to provide advice on? The facts are provided by the company' (ExecRemConsultant: 5)
- GI&O: 'No one has directly approached us with that accusation or provided us with evidence. Our corporate reporting review powers do not extend to the DRR. So, for example, if someone were to present us evidence that the reporting in the DRR was deficient/inaccurate/whatever, we would have to refer that to the relevant Government department because that is their responsibility. If we see problems in a report and accounts which we think requires further investigation, and were able to look at the DRR in so far as it relates to those problems, it is not an area of enforcement for us or our expertise' (ROO: 5)
- GI&O: 'The general opinion advanced is that for RemCo advisory services that are linked to other major professional advisory services it would be quite difficult to regard them as independent. To a certain extent, some of their fees depend on outcomes which are favourable to the company and favourable to the investors. I wouldn't be in a position to provide you with specific allegation of incidences of that' (ROO: 5)

- GI&O: 'I've got no evidence to say that they are not independent. It was always an issue sitting in the back of my mind as to how independent these ExecRemConsultants were and whether or not the desire to generate revenue from their relationship to a particular organisation held an importance which might have impugned their thinking and advice. But I have no evidence to say that that was a serious issue' (CoyExecRemSpecialist: 6)
- GI&O: 'I've certainly had suspicions about where the executive management, what drives their interests and how that influences pay outcomes. But I've never felt they were in cahoots with the ExecRemConsultants who provided independent advice' (CoyExecRemSpecialist: 6)
- GI&O: 'I never felt I was not getting advice that was independent. I was getting advice on a broad perspective of what opinions were available, and very much on what was acceptable generally in the marketplace at the time amongst institutional shareholders. Maybe you could argue that was trending everything towards the same result, but we needed a scheme that was okay for the company and the shareholders, and I think that's what we got. In the time I was at my company doing this work, it was phenomenally successful and the rewards were paid out without too much fuss. After I left it was probably a bit askew, but I'm not sure what happened. But I was in the lucky position of being there at a time when outcomes weren't questioned because shareholder value was being delivered' (CoyExecRemSpecialist: 5)

- GI&O: 'My experience was extremely comfortable. I felt they were allies to me personally in a difficult situation with the CEO. I always felt I could contact them to say: "Help, how do I cope with this demand or this view?", which was not necessarily one that was taking all interests into account, and I always got great help' (CoyExecRemSpecialist: 5)
- GI&O: 'Advice of ExecRemConsultants is currently independent and objective, but Americans seem in the past year to think the Establishment/Business is 'rigged'. The leader of one Boutique ExecRemConsultancy used to be called: "a foot soldier for capitalism". A decade or so ago, the situation regarding some ExecCompConsultants had been horrible, but process must not now take priority over everything else...one needs to pose the question: "Does a particular regulatory framework add value?" Genuinely independent now? Yes, for the most part' (ExecCompConsultant: 1)
- GI&O: 'All the ExecRemConsultancies I have worked for have been very conscientious and worked really hard to be objective and give advice and really try to take a perspective on what advice is in the interests of the company rather than beefing-up pay for a few executives or living in the pocket of the CEO. I genuinely believe that is the case' (ExecRemConsultant: 8)
- GI&O: 'Focus being very much about what will get approved by shareholders, rather than necessarily what is right for the company or the wider stakeholders of the company. Very much driven by benchmarking rather than asking bigger fundamental questions. I do think that advice is genuinely independent, that I don't think they are unduly influenced by

the company. The only people who really talk to the advisor are me and the RemCo Chair and then obviously they come along to the RemCo meetings as and when they are asked to attend'

(CoyExecRemSpecialist: 7)

- GI&O: 'They were certainly a suspicion, and almost by me that some of the advice given by ExecRemConsultants was to provide the answer people wanted to hear. It could be that this has changed significantly since I retired, with the disclosures that you mentioned people will be careful about this' (ExecRemConsultant: 9)
- GI&O: 'I think there are issues in terms of genuinely independent and objective. If everybody is going to be an upper quartile company it just does drive up the average. Certain ExecRemConsultants have a fairly good philosophy; we want to be below median on base salary but have a means of taking us into upper quartile, upper decile on performance' (ExecRemConsultant: 9)
- GI&O: 'I do think the industry takes independence and objectivity very seriously. You only have to look at the kind of effort/focus based on the RCG and on companies in this particular space. Ensuring they operate in accordance with the RCG's VCC. RemCos in general do receive independent advice. When we begin work with RemCos it is very clear who the client is, and it's through the RemCos and that everything flows from that kind of starting point' (ExecRemConsultant: 10)
- GI&O: 'In my contacts with RemCo Chairs, the quality and nature of the advice that they receive from independent advisors has never come into question' (ROO: 8)

- GI&O: 'Independence of advice? That is the point I have not heard coming from either a company's Chair or RemCo Chair. There has been some amount of questioning as to how 'independent' ExecRemConsultants are, but it tends to come from shareholder action groups. It tends to come from institutional investors. So that has been mentioned as an issue, a potential issue. There have been actually some calls for more clarity in terms of what are the services independent advisors are providing to the company, and whether there is some sort of relationship between being appointed as independent advisors on executive pay, for example, and contracted services such as auditing, tax advice or legal advice. But again, these types of comments have never come from companies. It tends to come from specific institutional investors. There's a group of five or six of them who seem to have taken this particular concern more seriously' (ROO: 8)
- GI&O: 'Independent and objective? Yes, I think they are. The difficulty for them is that they haven't got a test of that independence. As an accountant, one has to sign the accounts as true and fair. As a lawyer one has to give an opinion on something. ExecRemConsultants are advising management and leadership of the Board on whether the things they've come up with are sensible and appropriate, rather than saying this is a point estimate. They're very independent on what they are doing/advice they are giving, but it is not their job to ultimately prescribe the outcome, whereas in some other professions it is' (CoyExecRemSpecialist: 8)

- GI&O: ‘So I think pay determination and pay outcomes work pretty well. Is it genuinely independent and objective? I'd say that most of the time it is. I've seen some ExecRemConsultants who would - what's the best way of putting this? - selectively take some companies in the salary survey which, in my opinion, would give a higher pay outcome, than if they took better benchmarks. By and large the advice is independent and objective and I say this having worked in a Big Four, ABC and Boutique consultancy. And the clients know that the individual who's giving the advice is the one who's giving the benefit of their opinion, not just the house brand. And you build a relationship with the RemCo, who understand your perspective, your attitude and your approach to the combination of art and science, because it is both’  
(ExecRemConsultant: 12)
- GI&O: ‘A great deal of pressure to make ABC’s acquisition work, with pressure on remuneration advisors in the ABC firm, with the firm knowing what good Board level contacts one had, to advance the acquisition’s services. That was partly why there were so many demands from the big ABC firms. Apart from that interlude, I think the advice is independent and objective, and indeed, even the pressure to sell consulting would not have affected the advice on what a fair benchmark is, what is the appropriate level of reward, how do you determine salary objectively and fairly’ (ExecRemConsultant: 12)
- GI&O: ‘Do I feel that the advice provided is genuinely independent? I'm sure somehow it is, but in my day it always was: and now I think that because these firms may have other connections...be dependent in other ways on the RemCo or rather the Board, that may be difficult. The working relationship between RemCos and ExecRemConsultants, I'm sure is often very close. The concern I have is sometimes it may be too close. An issue underlying this is the independence of the NEDs who are

on the RemCo and the extent to which they are prepared to take a wholly independent view of not only the advice they get but of the decisions they may take whether or not executive directors are entirely happy with that. To make a judgement on that you have to be in the room, but I am a little sceptical' (ExecRemConsultant: 13)

- GI&O: 'I think one can learn something about how ExecRemConsultants should operate by looking at the extreme case, which is medical profession. The legal profession is a sort of intermediary I suppose. ExecRemConsultants have to be independent minded and to take the hazards of that. They are subject to forces and pressure that some of those other professions have managed to evade. It's called business' (ExecRemConsultant: 13)
- USGI&O: 'I think in general it's okay but I do have concerns about it. Is the advice itself independent? Well, the short answer is yes and no. The influence of management on the ExecCompConsultants - the issue? More often the CompCo itself, who are not as understanding of the information as they should be, and a lot here in the US, function with what are the peer groups of companies that the organisation is compared to, for purposes of success as well as pay levels. The CompCo is often not educated properly as to how these peer groups are constructed. This has always been a problem' (ExecCompConsultant: 2)
- USGI&O: 'Were the consultants independent? Meaning not pressured by management. At least the majority of clients I have had, the consultants were independent. We did talk to management, with approval; you can't do these assignments without talking to management to understand it. Were we unduly influenced by management? Well the answer at least for me was: "No". I had a few clients over the years where

management didn't like us and we were terminated. We said: "No, we're not doing this." We were able to step away. Genuinely independent? I'd like to think so' (ExecCompConsultant: 2)

- USGI&O: 'My practice leader was supportive when one of us would have to say we've got to back away from this client because this is violating how we work. He was always supportive of that. He didn't like the loss of revenue, but he never once criticised me when we had to say, no, we've got to back away from this, or we were terminated because we would not go along' (ExecCompConsultant: 2)
- USGI&O: 'I've seen both ends of the spectrum and most of the clients fall in the good zone. Maybe that's a function of the client's self-selected by the ExecCompConsultants. They pretty much figured out we were going to be straight-shooters and hold the line' (ExecCompConsultant: 2)
- USGI&O: 'Waxman was political grandstanding. Dragged various firms in front of them and then proceeded to beat them up for no reason, other than political expediency. I was delighted when my practice leader said: "I'm not appearing, I'm not doing this". An ABC client manager actuary might select out CompCo advisory work, but I never felt pressure from a client manager saying you have to give them what they want because of the magnitude of the fees. ABC, actuarial or benefit fees dwarf the compensation consulting fees. If we told the 'truth' it would put much larger practice into jeopardy? No never. We didn't do anything different. I think that's the important point' (ExecCompConsultant: 2)
- GI&O: 'The reasons that the institutional investors started to look at these things was pretty sound. There was very little control on executive pay and something needed to be done about it. What has been done does not really improve the situation very much. When I look at the

independence of advisors, the firms themselves are not, I believe, independent. Most recent case I had: advisors started off by working for a Boutique firm of ExecRemConsultants. Through amalgamation and acquisition they found themselves working in an organisation which provides a huge amount of other services to our business (both in the insurance and pension-funded worlds). So there is inherent conflict there, in that the fees are payable to that firm. The particular consultant who we used to use has recently spun himself out of that organisation and has gone to work with another financial services provider whom exactly the same thing will happen with. You look at the audit firms who are providing this advice and, again, the importance of the remuneration advice compared to the fees they might earn from other things is different. I think the weight of the payment starts to bring into question whether the ExecRemConsultants are really independent' (NED: 3)

- GI&O: 'Independence in our firm is defined very specifically under US law/regulations. When we acquire a client, or rather when the client chooses our firm, we test out every member of our company whether or not we have, as individuals, relationships with members of the Board of the prospective client. So there's no possibility that we're advising the individual who's on the Board of one company who might pop up as a contact of another company. So that, if you will, you would imagine being nice to us in one company but then lead to some sort of conflict in another. That's not allowed to happen in our firm in the US. So we're very comfortable with what is defined as independent. US independence is different. The Big Four cannot provide independent remuneration consultancy in the US because those organisations aren't providing so-called independent advice to the CompCo and on the other hand are offering pensions,

accountancy, share schemes, tax and other consulting services and executive compensation. In the UK, RemCo advisory appointment is something like £25,000 to £45,000 a year. This is a fraction of the opportunity available to a large accounting firm in terms of a FTSE 350 company' (ExecRemConsultant: 15)

- GI&O: 'I think there is an issue around independence. The relationship between ExecRemConsultants and their client is further complicated by the fact that consulting firms are not paid by the shareholders, who are the ultimate masters in this process of remuneration governance, but by the companies themselves. The ideal would be a pool created by shareholders to pay for good advice on remuneration - which would then truly make consulting firms independent of the companies because tactics around payment of the invoice is a large weapon in the HR Department of the companies that are being reviewed by so-called independent consultants' (ExecRemConsultant: 15)
- GI&O: 'It's an interesting dilemma, isn't it? Because you've got advisors who earn a fee from executives in organisations to help them figure out what the approximate levels of pay should be. So in my experience, the principle of a RemCo is governance, which is excellent' (CoyExecRemSpecialist: 1)
- GI&O: 'Genuinely independent and objective? Yes, I think it is, I think people try to do a good professional job and they're offering their own genuine view. Corrupted by being in multi-line firms? I don't believe that at all. I think that there might be a perception issue. All you can do is give independent, objective and, as you see it, best advice' (ExecRemConsultant: 4)

- GI&O: 'I've always felt that the people I work with and the work that I've done does seem independent. The fact that the people that you're actually advising are going through a RemCo anyway, that's almost like a shield to stop you if you were lacking independence...(...)... we benefit from good shareholder votes, good reputation, good relationships, we're not in it to make the other company do better. And we don't benefit from the executives earning more so my theory on this was unless you were maybe personally friendly with an executive director, and you may have an interest to help them, that's a professional standard really, and should just uphold being professional at all times anyway'

(ExecRemConsultant: 7)
- GI&O: 'We need to have a look at (a) the conflicts of interest and (b) who the ExecRemConsultants are working for. Are they working solely for the benefit of the RemCo or are they influenced by wider relationships with the company or with the need to be seen to be favourable to management? Are they inherently causing problems by benchmarking and continuing, maybe even advertently, creating a ratchet in remuneration by the use of benchmarking and their role as a whole? Are they inadvertently promoting single structures in their advice and do they really think about the broad range of structures which they should be recommending to their clients?' (ROO: 6)
- GI&O: 'There are at the wider scale questions about appointed ExecRemConsultants' role and whether they are working as ethically as possible. One example we heard a number of times, but from very good sources, that ExecRemConsultants had been approaching management to say you are underpaid and that is obviously a significant issue that does great detriment to the industry' (ROO: 6)

- GI&O: 'My general view is that actually the ExecRemConsultants have moved on, the relationship is more with RemCo, it is more independent. I do think that there is varying quality of advice given' (ROO: 6)
- USGI&O: 'Matters vastly improved since the 1980s. Things now working pretty well. Much better than 10 or 15 years ago. Big game-changer has been the introduction of Say-on-Pay (one can blame the Brits for this). Legacy comp has been cleaned up. I advise successful Board members who believe in capitalism. Not want a negative recommendation from proxy advisors. At one time a particular Boutique firm had been the voice in the wilderness. Since then there have been SEC measures addressing disclosure, conflicts of interest and independents etc., but Say-on-Pay has had the most influence' (ExecCompConsultant: 1)
- USGI&O: 'In the 1980s GM would not return Calpers's calls. Process is now good between Committees and consultants. An observer might think company Boards themselves used to be more collaborative/advisory, but now have more oversight functions to discharge. External consultants need to be independent of management, but at the same time they need good relations/collaboration/trust with management on understanding the company's business and key strategy drivers etc.' (ExecCompConsultant: 1)
- GI&O: 'Most work is more about compliance than it is about supporting the business. Independence of advice? I think it's in a very good place as a whole. The key point to remember is that this is advisory. It's not ExecRemConsultants who set pay, but they advise Boards on the matter. Just like you can't blame McKinsey for all the bad strategy their clients have implemented, I don't think you can blame the ExecRemConsultants for bad RemCo decisions' (ExecRemConsultant: 16)

- GI&O: 'In my experience, most of the really bad decisions are not as a result of following the ExecRemConsultant's advice. The Board makes decisions on many different aspects, and the consultants can only provide a few of these. Independence of thought and mind – because the industry relies on the reputations of its consultants. If the appointed ExecRemConsultants gain a reputation for not supporting the interests of the greater good of shareholders they tend not to last. I've not come across many where it's clear the consultant does not have his or her heart in the right place. It's more a problem of competence. There are a lot of ExecRemConsultants out there who have less competence than others. Advising in a way that is more technical and less linked to business realities' (ExecRemConsultant: 16)
- GI&O: 'It's not human to bite the hand that feeds you. You don't want to lose the relationship. But a good ExecRemConsultant does not let that be a hindrance. Good ExecRemConsultants get fired for standing up for their views, and for taking up a position and they usually get appreciated for it as well, although not enough' (ExecRemConsultant: 16)
- GI&O: 'When talking about conflict the area where we have the highest concern is the conflict of interest between other parts of the consulting organisation and giving RemCo advice' (ExecRemConsultant: 16).
- GI&O: 'The situation on independence is much better than it possibly was 15 years ago. There is much more clarity now about who the client is. ExecRemConsultant clearly appointed by the RemCo, is reporting to the RemCo, is clearly disclosed as advising the RemCo, and everybody in the room knows that. It is a healthy state of affairs and does lead to more independent advice. RemCos are also quite clear about the relationship they want their appointed ExecRemConsultants to have with management. The core processes are there to protect independence. I

don't see evidence of conflicts through broader relationships. I see a challenge to independence in benchmarking/choice of peer group. RemCos do not challenge the composition of peer groups as much as they should. I sometimes see management try to edit consultants' papers. The thorniest topic at the moment is target setting for incentives – which is extremely difficult for any NEDs to do robustly. ExecRemConsultants are not used sufficiently to inform that important discussion' (ExecRemConsultant: 17)

- GI&O: 'Regarding independence, typically management writes its own paper on what the incentive plan target should be, and at best we'll be asked to provide some additional analysis looking at these targets through the lens of analysts' expectations or doing some modelling. The extent to which we're invited to do some kind of testing of targets is variable. For long-term incentives target-setting is more a piece of political advice, rather than a technical one' (ExecRemConsultant: 17)
- GI&O: 'In the US, ExecCompConsultants are a little bit more off the radar screen than the UK but not completely. People still mention us. One of the many causes of the GFC, is believed to have been the structure of the executive pay model and design, and these designs encouraged risk-taking. I disagree with that, and I think the academic literature agrees with me. Out of that came Dodd-Frank. Strong push for companies to hire independent ExecCompConsultants. We fill out a questionnaire saying that we do not have relationships with management, independent of the Comp Committee – and then the Comp Committee decides whether we are independent or not. It's not a bright-line test, not a legal test, it's a governance test. Out of that independence rule the ABCs spun out big parts of their executive compensation practices to solve for those activities the independence problem' (ExecCompConsultant: 3)

- USGI&O: 'Academic literature did not show biased service by full service firms, but Dodd-Frank sort of ended that debate. New Boutiques were spun out to address that problem for the ABC firms. And I think they made a wise decision. It was very nerve-wracking for those of us on the receiving end of it, but it's turned out to be very, very exciting. So there was this, plus non-binding Say-on-Pay. Difficult for typical active management mutual fund to have an informed opinion on whether pay-for-performance model is working in thousands of different companies. So SEC kind of ruled that if you followed ISS it was like a safe harbour, where you couldn't be challenged for working for or against management' (ExecCompConsultant: 3)
- GI&O: 'ExecRemConsultants are needed and valued to provide independent advice to the RemCo. The latter do not blindly follow the advice of their appointed ExecRemConsultants. The consultants are fully independent and objective, interacting with the Reward team. The latter view the ExecRemConsultant as independent, and the team provide them with the information needed to do their jobs' (CoyExecRemSpecialist: 10)
- GI&O: 'My experience was that ExecRemConsultants do try to do their homework, within the terms set by RemCos, and because the advisors themselves do have their own professional reputations to maintain. The convenient notion of the press that somehow they're in it just to bump up everybody's pay because they get paid that way is somewhat wide of the mark. Although I do think it's true that there is an element of grade inflation because it depends on your comparators. So in terms of reference for the whole remuneration package, everybody comparing themselves with people who have similar jobs in other fields, that does lead to some inflation because for recruiting for very big companies, which I think is what we're talking about, given the international scope of

so much business, that getting the people to run the biggest companies which are very complex organisations, you are looking to compare yourself not just with people in the UK, but with people in the US. I don't think you can just ignore all that and pay no attention to what everyone else is doing. The only way you're going to achieve reform is by everybody else, shareholders across the world, agreeing that this is a good idea to act in concert, and personally I don't see that happening any time soon' (CoyExecRemSpecialist: 9)

- GI&O: 'On independence: ExecRemConsultants score seven to eight out of ten on your continuum' (CoyExecRemSpecialist: 9)
- GI&O: 'On independence: In my experience, ExecRemConsultants try to be. Their brief, and subsequent reporting, is often driven substantially by the executive component which inevitably spoils their objectivity. The executive will often have some control over them getting paid as well. That is not in itself a problem. The CEO was strident in his views and on the extent in which the DRR would reflect his views on remuneration rather than RemCo's. The executives were very well paid to reflect strong performance delivered. Contents of the consultant's report weren't unduly provocative. Had they been I would have been a little bit disappointed about the degree of independence both displayed by the consultants and candidly displayed by RemCo itself in terms of ensuring some level of independence' (NED: 6)
- GI&O: 'Over the last several years we've had, what I would call, a bit of a sea change in the US and the relationship and protocols that are in place between ExecCompConsultants and Comp Committee and management. All in all the changes we've witnessed around disclosure, but even more importantly than around disclosure and the way that we actually operate our business on a day-to-day basis, has caused us to be

certainly more mindful of the lines of reporting and how we go about our business in the work that we do when we're engaged by Comp Committees' (ExecCompConsultant: 4)

- GI&O: 'ExecRemConsultants are another voice in the room when management and RemCo are trying to square the circle. Relatively helpful, and advice is generally independent, bias-free and objective. Quality of advice is good. In non-typical situations can find it difficult to formulate constructive opinions in institutional shareholder context' (CoyExecRemSpecialist: 12)
- GI&O: 'Checks and balance on management teams: Advising on the best methods for motivating management to achieve the goals of shareholders if the Board is doing its job. So do I think they are genuinely independent? In my experience they do bring an objectivity, and they certainly present advice in an objective way. Do I think they can ever be wholly independent when they are employed by the company they are advising, it's a question of biting the hand that feeds you, isn't it? RemCos do demand independent advice. But is it in their interest that the advice is entirely independent? The relationship as a whole tends to be managed from within the executive team. My experience is that RemCo Chairs are very keen to spend time with their appointed ExecRemConsultants. Indeed, RemCos as a whole are. It will typically be a member of the executive team who frames the inter-action' (CoyExecRemSpecialist: 11)
- GI&O: 'It's a tough ask of appointed ExecRemConsultants to be entirely objective in the advice they're giving, but having said that it's absolutely achievable, because you can be objective in your advice without necessarily cutting across the interests of those you are advising. I think it is a necessary relationship that a RemCo should have an external

advisor. Whether we will ever get to a position where that advice is genuinely, fully independent just simply because of human nature, I don't know' (CoyExecRemSpecialist: 11)

- GI&O: 'I feel that appointed ExecRemConsultants do provide genuinely independent advice. We are in the room for that purpose and we are hired and appointed by the RemCo Chair. Our role is to bring the external perspective into the room, whereas HR/Reward Director are there to bring the internal perspective, and the recommendations that are being proposed are obviously to solve an internal issue. Our remit there is to say how that proposal would land externally. How would you communicate it to shareholders and whether there are any pitfalls associated with that and have other people experienced pitfalls trying to do the same thing?' (ExecRemConsultant: 19)
- GI&O: 'There are some people in any profession who do the profession a disservice in how they behave, but I think the good ones do provide genuinely independent and objective advice. The working relationship with RemCo Chairs is very clear, that you work for the RemCo Chair. But often you work with management because this is a very tense world in RemCo and to the extent you can resolve differences with the RemCo Chair, with management, before the meeting, so they modify proposals to be less inflammatory, or less likely to be rejected by shareholders, then that's a good thing. If you give input into management and they ignore it, then at least they know you're going to raise that again in front of the RemCo. And they can decide to argue their point in front of the RemCo, then we can argue our point and then the RemCo makes a decision. We are not the decision making authority here. Our job is to make sure the RemCo makes a fully informed decision' (ExecRemConsultant: 19)

- GI&O: 'The whole idea of the sort of relationship between the different parties and the various conflicts that arise is extremely complex. Not least because the appointed ExecRemConsultants really act in different capacities when they're advising Boards' (CoyExecRemSpecialist: 1)
- GI&O: 'ExecRemConsultant has no skin in the game. So they can give their advice. They can put your scheme in place, and go and talk to the shareholders and the ExecRemConsultant can walk away. So ExecRemConsultants are different kinds of people. But if somebody who does that then says: "I would actually like to go and live with the consequences of that and how it works for real". I can see no problem in people diving either way, to be honest. However, it requires a different frame of mind. I certainly think that if I was in a company looking to appoint an ExecRemConsultant, if I saw somebody who had experience of both sides of the fence, I think that would be a plus for me in terms of possibly choosing them' (CoyExecRemSpecialist: 5)
- GI&O: 'What is the role of the ExecRemConsultant? This answers a lot of the questions. The role is to provide independent advice to the RemCo? The role to protect shareholder interest? Two fundamentally different things, and I think we're getting mixed up. I think the answer is the former (ie., to provide independent advice to the RemCo). It's the Board's job to do the latter (ie., to protect shareholder interest). From that, I think, flows an awful lot. The ExecRemConsultant should be advising what the likely reaction of shareholders will be. That's one element of the role. Genuinely, to help the RemCo get to the right remuneration structures to drive performance in the business. Sadly, that can sometimes diverge from what is perceived, though in perception only, not actuality, to be in the shareholder interest. And the good ExecRemConsultant will be clear that it's the actual, not perceived, that is most important' (CoyExecRemSpecialist: 11)

- GI&O: ‘There would be accusations of course that you would want to please the executive directors because it would lead to your continued employment by them or it would help in order to retain other work, and being a multi-disciplinary firm that was easily something that could be levelled against you as criticism. I was once asked by the manager of an actuarial client to ‘egg up’ the pay of the CEO. I totally ignored the advice and looked the other way. I was perplexed... I just thought it was a bizarre thing for anyone to say. Suggests that people’s suspicions are not totally ill-founded’ (ExecRemConsultant: 18)
- GI&O: ‘ExecRemConsultants quite like their spotlight and I think that they do try to guard their independence. Where things fall down is that your advice, or the information you provide, might be presented in a completely different way to that in which you would have presented it yourself. You often don’t attend the RemCo meetings (or only part of a particular meeting). Failings not with independence of consultants, or quality of their information; I think any suspicion that they are influenced by the potential of losing other work is extremely minor, non-existent in my opinion. Problems arise in how the information is delivered’ (ExecRemConsultant:18)
- GI&O: ‘The ExecRemConsultant is not really particularly independent. All of his failures will lead to a stricter regulatory environment (fixing a problem that existed two or three years ago, as opposed to a problem that exists in the future). What you really need to fix this problem, in my opinion, is fewer experts. Far less time and attention on this topic. Much less regulation, with far tougher stringent outcomes for people who are outliers if they get it wrong, because the rewards for getting it right are inherent. More for us around design of incentive packages: virtuous outcome of good design. The average, the high-water mark, of pay would recede’ (ExecRemConsultant:15)

**4.3.7. RITG1:SQ3 - ‘What is your perspective on the working relationships between RemCos and their appointed ExecRemConsultants [Sub-coding: ‘WorkingRelationshipsRemCo/ExecRemConsultants’]?’**

- WorkingRelationshipsRemCo/ExecRemConsultants: ‘I think it is still very much an industry where RemCos will appoint as their advisors individual ExecRemConsultants from firms they feel comfortable in working with, with the knowledge that the firms themselves have got decent data and experience in order to bring different perspectives of the discussion’ (CoyExecRemSpecialist: 3)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘I think that it’s very important the relationship works’ (ExecRemConsultant: 1)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘I think the RemCo’s appointed ExecRemConsultants have quite a difficult path to tread because they are trying to do the right thing in terms of their objectivity and giving advice but have that conflict of having to work with the management in the internal team’ (CoyExecRemSpecialist: 2)
- WorkingRelationshipsRemCo/ExecRemConsultant: ‘I know most RemCo Chairs are robust; but to have, if you like, an objective, external and experienced ExecRemConsultant supporting you, or nudging you in the right direction, I would hope they would find it very useful’ (ExecRemConsultant: 2)

- WorkingRelationshipsRemCo/ExecRemConsultants ‘The appointed ExecRemConsultants I have chosen to work with have been extremely professional and helpful in terms of the experience and guidance they've given to me, or to the RemCos I've been involved with. I have in beauty parade situations met with other ExecRemConsultants who, frankly, I would never wish to use in that capacity. Inevitably, it comes down to the individual who you're working with. Forget the fancy plaque that may be above the office door of that individual. I use individual ExecRemConsultants as they move from one firm to another. I value the advice and input from that individual’ (NED: 2)
- WorkingRelationshipsRemCo/ExecRemConsultants ‘The lead advisor from the ExecRemConsultancy firm is very much trusted by our RemCo. They seek his opinion on matters they regard as contentious. Where the market is, how shareholders view things, but the large part of the design of what we would do with incentives came from the NEDs and executives themselves. The working relationship is probably more remote than would be ideal or anticipated in the RCG’s VCC, but it works well for us’ (CoyExecRemSpecialist: 7)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘It was certainly one that works very well generally speaking and probably one could actually, in some very good cases, work as a team. The pay determination process has got a bit better since the 1970s because people were always taking into account costings and value on pensions etc. On the other hand, I feel that just working on comparisons all the time has ridden executive pay up far more rapidly than I expected. The multiplier compared to the average of the workforce has become much higher. I am in favour of pay ratios being published’ (ExecRemConsultant: 9)

- WorkingRelationshipsRemCo/ExecRemConsultants: 'I think working relationships are very good. They are very constructive. Works well. RemCo, external advisor and management all trust one another. In general there is a degree of trust in that triangular relationship. Where that is there you tend to get better decisions made'

(ExecRemConsultant: 10)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'I think I've got no reason to say it's not a good working relationship'

(CoyExecRemSpecialist: 3)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'Generally good...I've no reason to doubt that there are any particular issues with that. Certainly, as I say, my experience with working with RemCos, and observing them working, and working with RemCo Chairs, has been generally pretty sound, pretty good. And again if you look at the nature of the firms and individuals concerned, that comes as no surprise'

(ROO: 1)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'I think the relationship between RemCos and their ExecRemConsultants is quite variable. And I don't necessarily mean variable in quality or independence, I mean the way RemCos use advisors is highly variable, and therefore it is quite difficult to generalise about the quality and state of that relationship, because there are so many different models used. Even within my own client portfolio I've got clients where, at one end of the spectrum, I attend every meeting as a matter of course....at the other end of the spectrum I've got clients where I probably haven't turned up to a meeting in five years and they call me when they've got specific questions. There are lots of models in between, even within my own portfolio' (ExecRemConsultant: 17)

- WorkingRelationshipsRemCo/ExecRemConsultants: 'I see ExecRem-Consultants more as business advisors because their advice, as it always interacted with me, it's not like a best estimate of an actuarial range, or a true and fair opinion by an accountant, it's helping the leadership team and a Board come to an answer which is grey rather than black and white. So for me the whole art of an ExecRemConsultant is to be an artist and there is not an actual fixed answer' (CoyExecRemSpecialist: 8)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'The relationship between ExecRemConsultants and leadership, and I mean by that the Board and CEOs is pretty good. CEOs, unless they're egotistical maniacs, cannot get their own way, and therefore it has to be a sort of almost tripartite relationship between the CEO, the Board and the ExecRemConsultants. In my experience, ExecRemConsultants are pretty good at balancing the issues of all these people including shareholders and coming to a grey answer that is probably appropriate' (CoyExecRemSpecialist: 8)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'The situations where a RemCo feels let down are when an ExecRemConsultant capitulates in the face of an aggressive CEO, who'll bang the table and demand more. But mostly I find the relationship is one of mutual respect' (ExecRemConsultant: 12)

- WorkingRelationshipsRemCo/ExecRemConsultants: 'Generally good relationship between RemCos and their appointed ExecRemConsultants. Independence is not black and white, it's a scale. A fully independent consultant would say equally frequently overpaid as much as underpaid. A lot of it comes down to what you do not say (what one says is objective and tactful). Boutique firms may bite their tongues slightly less often whilst trying to cross-sell. Rules in place to govern executive compensation advisors cross-selling. Often in fact it's cross-buying on the part of companies, rather than cross-selling. Big Four so large and powerful that it could increase the risk of conflict/crony capitalism problems' (ExecRemConsultant: 14)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'The working relationship between RemCos and their ExecRemConsultants has changed because of the regulation and the requirement to have your remuneration strategy agreed. The role of the ExecRemConsultant has become much more important in making sure that both the strategy is in line with the current requirements of the institutional investor and then in helping the RemCo make sure it lives by the strategy it has set. Consequently, the advisor isn't just giving advice about how to pay people but a whole load of other reporting statutory requirements. It's become much, much more important. That's why I think RemCos do not really move without the ExecRemConsultant being involved and the level of fees has gone up dramatically as a result of that. So I'm not surprised the big financial services organisations have decided they want to get involved a bit because it has been, I would imagine, I don't know what the numbers are, but the amount paid to remuneration advisors must have gone up exponentially over the last two or three years' (NED: 3)

- WorkingRelationshipsRemCo/ExecRemConsultants: ‘If you're doing your job you become irreplaceable as an ExecRemConsultant. I mean that's clear. The whole purpose of being a consultant is to stay ahead of your client and provide trusted advice to the Board. That's what a good consultant does. If you're doing your job properly they will know and trust you as an individual rather than as a company. They tend to focus on the individuals rather than companies’ (ExecRemConsultant: 15)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘Relationship between ExecRemConsultants and the Director of Reward are the most difficult because the latter is internal. They view the ExecRemConsultant as a threat. The Director of Reward has fewer budgets and is more cost-conscious. Ultimately signs off the bills, and is perhaps looking to become an ExecRemConsultant in the future or was a consultant in the past. They think they know the right answer if they are young and can easily be in a position where they feel threatened by someone from outside’ (ExecRemConsultant: 15)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘From where I’m standing the relationship between consultants and RemCos is pretty good. RemCos seem fairly happy with what’s going on’ (City Lawyer: 4)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘I think that ExecRemConsultants for their part are very mindful of their own responsibilities under the RCG’s VCC, and are keen to discharge them, including establishing the clarity of that working relationship and the reporting lines that sit within’ (ExecRemConsultant: 3)

- WorkingRelationshipsRemCo/ExecRemConsultants: ‘I think in some cases ExecRemConsultants are perhaps a little too pushing and aggressive with the way in which they interact with investors, and I think that got a pushback from investors, and one of the positive changes that has happened over that time is that the way in which consultants interact with RemCos and investors seem to have improved for the better as far as we can see’ (ROO: 4)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘In a meeting that an investor, or a proxy advisory firm, will have with a RemCo to discuss a proposal that conversation will be almost exclusively with the RemCo Chair, which is entirely appropriate obviously. The ExecRemConsultant might be involved at some stage, but certainly wouldn’t be driving the discussion in the way they may be used to do 10, 15 years ago’ (ROO: 4)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘ExecRemConsultants do seem generally to have a pretty good view now of investor views and an understanding of how it works with the different people involved from the investor side. Standard policy guidelines and what investors themselves do at a meeting based on many cases they are on their own guidelines. Consultants seem to take time to understand these different positions and different parts, and feed that into RemCo deliberations, and because of that it has moved in a positive direction. I think the role of the ExecRemConsultant may be less of a hot point/issue than it was going back a few years’ (ROO: 4)

- WorkingRelationshipsRemCo/ExecRemConsultants: 'I think that ExecRemConsultants have stepped back a little and assumed that they are perceived as being advisors to the RemCo, rather than advocates for a specific plan. To be honest, it's not perfect. There are certainly maybe one or two consultants who still maybe overstep the mark, for want of a better phrase, but in general I think it is better that what it was in that regard' (ROO: 4)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'In general we feel there's a fair degree of honesty and the ExecRemConsultants are trying to do the right thing (some say investors happy with the scheme when they are not and some to not feed back our concerns to RemCo). It's in their interests to ensure that investors' views are represented fairly and taken into account through a general consultation process which the RemCo will lead but the appointed ExecRemConsultant will have input too, for obvious reasons' (ROO: 4)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'It appears to us that there may be some sort of knowledge gap between the expertise which is held by ExecRemConsultants and the knowledge of some RemCos. The way in which those packages are put together and how you actually consider performance, both of the individual, both of the company and overall terms and both of the company in relation to its competitors, then you start to get into a very tricky area on which the ExecRemConsultants are experts and perhaps some of the members of the RemCos are not so much experts. I think that area or that complexity is important because one of the responsibilities of RemCos is to exercise judgement in terms of how they might override, can we put it, the detail of the package' (ROO: 5)

- WorkingRelationshipsRemCo/ExecRemConsultants: ‘ExecRem-Consultants are there to advise RemCos. So we can’t put all the blame on ExecRemConsultants. Directors are there to take the best decisions on remuneration for the company and shareholders. So to just automatically point to all the ills of remuneration at shareholders, directors or consultants is not necessarily the right thing. So consultants’ role needs to be seen as part of that chain and I suppose for me the role of consultants is important to give independent advice to RemCos’ (ROO: 6)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘I have to say I’ve always found the service provided by ExecRemConsultants to be very valuable and appropriate, but of course that depends on the individual consultants who you are actually working with. I’ve always used the advice of consultants as advice, rather than being definitive. I’ve felt it is the responsibility of the RemCo to make decisions and not to have somebody say this is the decision you have to make. Different from expert areas, such as pension plan advice from actuaries. It’s the pay and rations bits, as opposed to the detailed nits and gnats of the pension actuarial needs’ (NED: 2)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘The basic reason RemCos employ ExecRemConsultants is not because they particularly love them, but they like to have some input which they feel might be helpful in their deliberations. That should be the honest reason for it, not because they want someone to tell them what they should do. A sensible Board will always want to have some advice – reaching a conclusion which is based upon input which is of some value. I feel there is no outsourcing of advice in the UK. I just never see that. I think the blaming of consultants by RemCos is just a cop-out. Some is engendered by institutional investors who feel that their investment in a business has

gone south and so they create stories to suggest that things are poor in the particular company where they have got the investment, before they necessarily exit it' (NED: 2)

- WorkingRelationshipsRemCo/ExecRemConsultants: 'Remuneration is work of both Board and management, but there is almost an immediate conflict, not just of interest, but views on expertise and everything. Being an ExecRemConsultant is 10% about technical competence and 90% about being a politician, because it's diplomacy. It's making one of the most important wheels in the management machinery work as well-oiled as possible without any friction. It's incredibly important the ExecRemConsultants work with both Board and management, and to do so without taking sides' (ExecRemConsultant: 16)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'Probably the biggest factor that influences that relationship is the size of the company, the degree of internal support and the experience of the RemCo Chair. The bulk of my clients tend to be larger companies, where actually the degree of knowledge and experience and expertise and resource in-house is quite large, and the ExecRemConsultants are, as it were, not solicitors but counsel. We're called in to deal with thorny issues, rather than to provide day-to-day advice. I think, generally, RemCo Chairs value advice. They listen to it and find it useful. There are some committees that see us as a necessary evil, you can tell that they don't particularly like external advisors to their Board committees. They don't like the process of benchmarking, but they know they have to do it. In most cases clients use ExecRemConsultants because they want to. RemCos are sophisticated buyers who get the advice they want' (ExecRemConsultant:17)

- WorkingRelationshipsRemCo/ExecRemConsultants: ‘I believe the relationship between the appointed exec comp consultants and the Comp Committee in the US is excellent. My firm, and as far as I can tell, my competitors, have a lot of independence and give very independent advice. I see the outcome of many of competitors’ decisions in the proxies, and also I am occasionally at meetings with them, with the client, and occasionally I see their reports, and so I can see the nature of their advice and see the outcomes. The latter belong to the Comp Committee, but as a general matter, certainly in large companies, it appears to be highly independent and extremely useful’ (ExecCompConsultant: 3)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘Working relationships: Very strong. We, the appointed ExecCompConsultants, report to the Comp Committee, in particular the Comp Committee Chair, but most of the time we work with management to develop joint proposals or where we review management’s proposals and give a view to the Comp Committee. We almost always have advance meetings where we give our questions, modifications to the data analysis, modifications for the way it is written up and, of course, modifications to the actual policy recommendation. And we don’t always agree. About 90% we end up agreeing. There tends to be unanimity at Comp Committee meetings most of the time – for Comp Committee to consider. Say-on-Pay, since 2011, has dramatically enhanced, it has made it much more likely that our advice will be followed by the Comp Committee. Proxy advisors, in particular ISS, have made it more likely the advice will be listened to’ (ExecCompConsultant: 3)

- WorkingRelationshipsRemCo/ExecRemConsultants: ‘I can give the example of a Company Chair and RemCo Chair asking me, when I was an ExecRemConsultant, to speak with a CEO over his pay package. All components were competitive. He backed off. The others thanked me profusely and said that they were forever in my debt. This is an example of the fact that Boards have to get on together’ (NED: 4)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘There were times (when I was an ExecRemConsultant) when the RemCo was feeling a bit either over-enthusiastic and had to be pulled back, or equally, not facing up to the challenge that the business needed them to address. So sometimes an ExecRemConsultant’s job is to put the hand between the shoulder blades of the RemCo Chair to give them a bit of a shove. And quite often it was put the lead around the neck and yank them back’ (NED: 5)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘The RemCo Chair is in charge of the vehicle’ (NED: 5)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘It is important to have an ExecRemConsultant who fits the situation in which they find themselves. For a lot of people all they need is general reassurance that their pay hasn’t fallen woefully out of line with the market, and a little bit of a market update to say that they can see the decisions they make in the context within which they are made’ (NED: 5)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘For others, actually what they need [from an ExecRemConsultant] is somebody who will help take on the CEO who is completely obsessed about their pay. I remember one CEO who had a spreadsheet on his desk which was updated every 15 minutes with a share price. He had a spreadsheet of

all the people he thought he ought to be paid like, and he would turn up with more data than the average consultant could shake a stick at. Now you need a very different advisor than one advising someone where you've got a grown-up CEO who is too busy worrying about the business to worry about his pay and just needs to be comfortable that he's being rewarded in ways that aren't unfair' (NED: 5)

- WorkingRelationshipsRemCo/ExecRemConsultants: 'I think the needs of a RemCo are quite varied. I also think it depends on the nature of the RemCo Chair. It's not just about their knowledge and skills. It's about their willingness to spend time on it because remuneration does take time. The working relationship and their appointed ExecRemConsultants, it's as varied as human beings. There are some where the RemCo Chair is unhealthily dependent on the information and input of the consultant. There are those where actually they've got a couple of meetings a year where what is needed from the ExecRemConsultant is a market context and then they're gone. In other situations, the ExecRemConsultant needs to be involved in all the meetings to understand the context in which their advice sat. And yet a large chunk of the firms don't go to RemCo meetings, don't go to all the meetings, and don't go to all of the meetings that they could actually go to' (NED: 5)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'There is a point where there has been a crisis that your shareholders remember, where the ExecRemConsultant has become the corporate memory. CEO has changed, the CFO has retired, the HRD has moved on. The ExecRemConsultant is now the only person that can actually set the

current decisions in the context that any of the shareholders will read it against. The corporate governance community is quite an immobile population. They might occasionally move from one house to another, but they stay around a long time' (NED: 5)

- WorkingRelationshipsRemCo/ExecRemConsultants: 'The job of an appointed ExecRemConsultant is to ensure that the information needed to enable the RemCo to make a good quality decision is available to them. It's not the ExecRemConsultant's job to make the decision, although a lot of the time they will have strong views and that's fine. In fact, it's desirable, but the purpose is to facilitate making good quality decisions. It would be unforgivable if the ExecRemConsultant knew something they didn't air that the RemCo, had they known that, may have made a different decision' (NED: 5)
- WorkingRelationshipsRemCo/ExecRemConsultants: 'So if a RemCo says: "We want to increase quantum by 20%." We say: "Well if that's what you need to do, here's some of the issues you are going to face. Here's how some shareholders will react, and you need to have a jolly good rationale for why you would want to do something like that". That sort of advice is our role. On the basis that we retain the vast majority of our relationships when RemCos review them, I think we are genuinely independent and objective. The amount of CEOs who do not send us Christmas Cards I think is an objective measure, and very few if any CEOs send us Christmas Cards, because I think they feel we do not work for them, we work for their RemCo, and often that's not necessarily a happy relationship in that case' (ExecRemConsultant: 19)

- WorkingRelationshipsRemCo/ExecRemConsultants: ‘ExecRem-Consultants in huge firms that are multi-national businesses, have databases that go across the globes, so they’re in a far better position than a RemCo, or an HR person, or CoySec to try and assemble all the data that’s necessary to just get the raw information as to what other people pay. So I think you do need external advice, you can’t get away from it, and as long as we have the current system of bonuses and LTIs, you’re going to need advisors to tell you what other people have, and how they approach things. So you can’t decide what is a sensible thing to do, but Joe Public just sees headlines, and thinks that all these fat cats. I don’t think you’ll change their perception, unfortunately’ (CoyExecRemSpecialist: 9)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘Most RemCos are more bullish on pay than ExecRemConsultants. I know we’re perceived as egging on companies to do more and push pay up. Most of my clients would like to pay more than I advise them to do. I feel I’m a downward influence on most of my RemCos, but this is not as effective as acting as a handbrake’ (ExecRemConsultant: 7)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘Do CEO’s follow behaviours and objectives that will deliver them dosh in three years? Yes. If ExecRemConsultants think the Board is being incredibly short-term, point it out to the Board and say: “In three years’ time this may well look all very different and if you set these measures, these are the likely consequences”. I think ExecRemConsultants do that, but the main drivers are the behaviour of Board and executive directors – I don’t think that’s anything to do with ExecRemConsultants particularly’ (CoyExecRemSpecialist: 9)

- WorkingRelationshipsRemCo/ExecRemConsultants: ‘If you’re doing your job an ExecRemConsultant becomes irreplaceable as an advisor. I mean, that’s clear. The whole purpose of being a consultant is to stay ahead of your client and to provide trusted advice to the Board. That’s what a good consultant does. If you’re doing your job properly they will know and trust you as an individual rather than as a company. They tend to focus on individuals rather than companies’ (ExecRemConsultant: 15)
- WorkingRelationshipsRemCo/ExecRemConsultants: ‘Comp Committees I think find us to be of great value because they’re certainly not experts in this area and the way we are now. They all have experience of executive compensation in their own lives and professional careers but there are nuances on all of this, the regulatory particularly governance aspects they are less familiar with and depend on us to be able to guide them through all of this, particularly Say-on-Pay’ (ExecCompConsultant: 4)

**4.3.8. RITG2:SQ1 - ‘What is your view on the provision of UK ExecRemConsultant advisory services via, respectively, Big Four, ABCs, and Boutiques [Sub-Coding: ‘Big Four, ABCs and Boutiques’]?’**

- Big Four, ABCs and Boutiques: ‘There is value in being part of a larger organisation that is not just doing compensation. Sometimes the advice you want is a bit broader than purely compensation and having access to that is sometimes helpful’ (CoyExecRemSpecialist: 2)
- Big Four, ABCs and Boutiques: ‘I think you need that global reach with a bigger firm sometimes - and that's what I was lacking with Boutique firms, which as we say are pretty minimal now’ (CoyExecRemSpecialist: 2)

- Big Four, ABCs and Boutiques: 'About Big Four: They are all, they are very, very, bright, professional people with a qualification. Yes, you don't get a qualification lightly. They have got high professional standards and you've always got that kind of skill, if one has such a qualification oneself so they get a harsh rap sometimes' (CoyExecRemSpecialist: 2)
- Big Four, ABCs and Boutiques: 'Big Four: The fact that there are only four of them begs the question, is there sufficient diversification? It's approaching monopoly and I know they have just put in some regulations about you have to change your audit firm every ten years, I think it is' (CoyExecRemSpecialist:1)
- Big Four, ABCs and Boutiques: 'Big Four: A little too much of a monopoly these days. As a mega-trend would concern me if I was a regulator. ABCs: I think the same thing. There are fewer players in the market and that means less competition. It means less room for Boutiques to get in. It means potential monopoly' (CoyExecRemSpecialist: 1)
- Big Four, ABCs and Boutiques: 'The ExecCompConsultants in ABC firms were viewed as very special, important roles and people. Why? Because they had access to the C-Suite. So I think the Big Four, any professional services are the same' (CoyExecRemSpecialist: 1)
- Big Four, ABCs and Boutiques: 'My view on RemCos served by the Big Four? I don't get too worked up about this issue, particularly the issue about conflicts of interest' (ROO: 1)
- Big Four, ABCs and Boutiques: 'I think there is a role for any types of firm you have described in this question. I mean, yes, Big Four as you mentioned earlier, two of those in particular are very well represented in this space. I know from personal experience they have some highly

professional and able people in their teams, and have the resources to provide a lot of research and input into the equation. Likewise, some of the larger ABCs. Boutiques, again, I worked with some of those, and they certainly bring some interesting ideas, and of course have the advantage particularly for smaller firms, quite often being much cheaper. There is a risk I think with some of the Boutiques. Is there a danger of becoming one-trick ponies?' (ROO: 1)

- Big Four, ABCs and Boutiques: 'Clients who are looking and reviewing their ExecRemConsultants will have to take into account who their auditors are and whether they're coming up for a re-tendering process [where clients are using Big Four firm for audit and another Big Four firm as appointed ExecRemConsultants]' (City Lawyer: 1)
- Big Four, ABCs and Boutiques: 'I'm not sure we'll go in the UK as far as the US, where you've seen consultancies and the advisory services spun-out' (City Lawyer: 1)
- Big Four, ABCs and Boutiques: 'US-v-UK: I think we've always had very different approaches to executive pay...perhaps that comes from the underlying differences in, almost, the national psyches...in Britain, we're very much the mindset of, hacking off the tall poppies, aren't we?' (ExecRemConsultant: 2)
- Big Four, ABCs and Boutiques: 'Big Four - US/UK: It is odd that they haven't driven behaviour to the same end' (ExecRemConsultant: 2)
- Big Four, ABCs and Boutiques: 'I have to tell you that for an independent Boutique firm, we've been around for a very long time, but you know, it's not getting any easier' (ExecRemConsultant: 1)

- Big Four, ABCs and Boutiques: 'US: We'll take a big chunk of clients with us. The firm will facilitate that for us. Even encourage it. Because then they can create that divide, for the ExecRemConsultant services to CompCos' (ExecRemConsultant: 2)
- Big Four, ABCs and Boutiques: 'There was a marketing model in the 70s, 80s and 90s about cross-selling. We've all sat through meetings at which we were encouraged to cross-sell to the clients of other parts of the firm. That was a large part of the business model of the UK Big Four and ABC firms' (ExecRemConsultant: 2)
- Big Four, ABCs and Boutiques: 'What can you do to encourage more providers into this market? A hell of a lot of time is spent, kind of, just networking and stuff like that. And that takes up a hell of a lot of time. And it can be hard to quantify that. You have to put in a lot of resources to actually get income' (ROO: 2)
- Big Four, ABCs and Boutiques: 'US focusing on women because ExecRemConsulting was male dominated. In the UK, I've never seen ExecRemConsultancy as being particularly male dominated. In fact, quite a lot of the leading lights were females' (ROO: 2)
- Big Four, ABCs and Boutiques: 'There must be some kind of recognition that if one of the ExecRemConsultancies ends up with two-thirds of the work then the Government or whoever, may start to intervene. And also whether the ExecRemConsultancies actually are that different in their approach, and if not, then you have the danger of everybody thinking the same way, and doing the same thing, and providing the same service, rather than challenging their clients more creatively' (ROO: 2)

- Big Four, ABCs and Boutiques: ‘Plusses of a Boutique firm? By and large the quality of individual ExecRemConsultants would be better. What you have in the bigger firms are one or two star advisors, who have got some trophy clients. And then you've got a series of mediocre people trading on the brand name. We are unashamedly a partner heavy firm, more hands on’ (ExecRemConsultant: 4)
- Big Four, ABCs and Boutiques: ‘In RemCo advisory work it's the consultant that is appointed, and the firm is the secondary consideration. In some ways it doesn't matter if they're Big Four, ABC or Boutique. It's the skill, the fit and capability of the ExecRemConsultant advising that is the important consideration. Secondly, does the ExecRemConsultant have the necessary support and capability behind him or her to provide the required advice? And then you make an assessment about the fit. Then you see what the provision of those services is. Big Four or ABC, there is an internal separation between the executive compensation advisory practice and other consultancy work. A lot of the time the executive compensation folks don't speak to anybody else and vice versa’ (CoyExecRemSpecialist: 4)
- Big Four, ABCs and Boutiques: ‘Big Four/ABC firms: So there is a kind of Great Wall of China, rather than a Chinese Wall, built inherently in the practices, because of the nature of the people themselves’ (CoyExecRemSpecialist: 4)
- Big Four, ABCs and Boutiques: ‘We have moved to a situation around 2004 probably where Big Four firms where they are the appointed auditors will not advise RemCos as appointed ExecRemConsultants. When one looks back on that now and it seems a very obvious change, beggars belief in a way that one might have been in the situation where they might, but of course we have moved a little way along that continuum

and we should probably recognise that. I suspect we're still a little bit away from being perfect on that one, and one of the aspects that concerns me is particularly around newly listing companies' (ExecRemConsultant: 3)

- Big Four, ABCs and Boutiques: 'More generally, I must admit I don't see particular issue with the Big Four advising their non-audit clients, or certainly no bigger issues than the ABC advising in same way. The Big Four are doing other work (tax/advisory) and the ABCs are advising on pensions, benefits or whatever. I don't see that as particularly different. I understand the possibility of audit tender, and then one gets into a question of what is the appropriate period of 'cleansing'. In a sense, coming to the end of that relationship before you go into an audit tender' (ExecRemConsultant: 3)
- Big Four, ABCs and Boutiques: 'I would say that those Big Four that they're doing non-audit work and that the ABCs have robust processes. I can certainly tell you that if I look across to my FTSE 30 companies, we have a protocol in place. It is a fairly straightforward document, a couple of sides, but it defines very clearly my responsibilities as the lead advisor to the RemCo; how I should act in the context of the broader firm; what I should and shouldn't do... particularly in regard to trying to or rather not to trying to introduce new services into the business. It also establishes an understanding of the way in which I am remunerated by my firm and the fact that it is not influenced by any degree of cross-sale' (ExecRemConsultant: 3)
- Big Four, ABCs and Boutiques: 'The Big Four are highly 'siloes', so their auditors aren't even in the same building as their other advisors. Effectively, in a Big Four you've got people operating as huge separate businesses. Smaller accountants work much more closely with the

auditors. The limited choice in terms of ExecRemConsultants is a problem. The position of advising the RemCo should be undertaken by a different firm to one who is providing any other consulting/tax or accounting services' (City Lawyer: 3)

- Big Four, ABCs and Boutiques: 'Big Four: Their procedures for safeguarding will be very, very internally rigorous, as indeed they are in other chartered accountancy firms. Inevitably, the slightly smaller the firm gets the closer people are to each other. One is generating fees from fewer clients, so that in itself is a risk. I think there is a tension in all accounting firms. Some don't even call themselves accounting firms anymore. Some would probably not feel too sad if their auditing services were spun off completely. So there is a real internal drive to grow the advisory services. That's where the money is and money isn't in audit anymore and I would suspect there are the same pressures in the Big Four. They're not making their money from audit' (City Lawyer: 3)
- Big Four, ABCs and Boutiques: 'Whole concept that we've got reasonable people undertaking business in general. If you look at the US it is far more rules-based (as opposed to 'comply or explain'). Everything is fine until it's not fine and when it's not fine there's no explaining it, you mustn't do it. So US moved to Boutiques because it was decided that there were conflicts of interest and that no company would be able to manage them successfully. The UK is not as legalistic in its approach to the way a business is going to be run, there's more acceptance that organisations can manage conflicts in the UK. RemCos in the UK have decided they want a broader range of services from one provider' (NED: 1)

- Big Four, ABCs and Boutiques: 'Communications aspect of disclosure in the DRR is also an area which has certainly become important for a RemCo. Accountancy firms have got the audit and audit disclosure in the annual accounts - they are the natural home in many ways and have taken over from some of the communication consultants. I think it's been an active move from ABC to Big Four because of the range of services. It was the availability of these extra services that actually RemCos and companies were interested in. ABCs lost or reduced in size as regards to services provided to RemCos, and Boutiques sold off the fact that they were not only good individuals who were knowledgeable but didn't provide any other services' (NED: 1)
- Big Four, ABCs and Boutiques: 'UK framework hasn't mandated, as they have in the US, that it is no longer acceptable for one firm to provide a range of services...it's easier for RemCos to get these services from big firms in the UK' (NED: 1)
- Big Four, ABCs and Boutiques: 'Will UK Big Four get out of remuneration consulting in ten years' time? Perhaps discussions within the Big Four: 'Do we want to be in this business or not?' A, say, £30 million a year business, which is tiny for the firms concerned' (NED: 1)
- Big Four, ABCs and Boutiques: 'From my perspective some of the biggest ExecRemConsultancies in the UK are part of Big Four audit firms or ABCs. There is obviously a potential conflict of interest and there's a risk about what this means for the advice a RemCo gets from the consulting arms as advisors. I think everyone, and certainly on the investors' side, are aware of this as an issue. I'm not sure how in practice whether it's a fundamental problem with the current system, but I can't think of a case where I have concerns about whether the remuneration advice that has been given to the RemCo seems to be driven by the fact that the

ExecRemConsultancy firms in this position also had a major other relationship with the company - an audit relationship or something else' (ROO: 4)

- Big Four, ABCs and Boutiques: 'I think there was a wish by these enormous auditing firms in particular to protect interests. To spread their service offering into this particular field, which had a particular attraction I suppose because they went straight to the boardroom' (ExecRemConsultant: 6)
- Big Four, ABCs and Boutiques: 'I think what's happened in the States is much better than what happened here if you see. I favour the US approach, as I favoured it at the beginning when I got into the business. They were more professional in the States. Now of course there were some charlatans and some people who would misbehave, but they were far more professional, knowledgeable and thoughtful than anything that was available around the British market at the time. And it sounds to me as if they've been a lot more grown up about it still' (ExecRemConsultant: 6)
- Big Four, ABCs and Boutiques: 'If they are being independent then that means it's independent of any relationship they have within their firm or organisation, and there can be appearance of more potential conflicts within bigger firms than there is in Boutiques. But Boutiques can be equally at risk and in danger of not being independent because of the risk of loss of a significant portion of their revenue' (ExecRemConsultant: 5)
- Big Four, ABCs and Boutiques: 'US-v-UK: I don't think it was just disclosure. Some of the individuals involved in the US who came out of some of the ABC firms were high-profile individuals who saw it as an opportunity to set up their Boutique firms and break into the marketplace.

Those firms had close relationships because they tend to be quite local firms, rather than international ones' (ExecRemConsultant: 5)

- Big Four, ABCs and Boutiques: 'Big Four: It does reduce the choice, I think, overall. It is the 'Big Three' for ExecRemConsultancy probably at the moment: Deloitte, WTW and PwC. Mercer acquired Kepler and are clearly pushing for a greater share of the executive compensation market. It is a competitive oligopoly. I put UK competitors into two or three categories. The Big Three (ie., Deloitte, WTW and PwC), Aon Hewitt and Mercer. Then you've got others like E&Y and KPMG who tried to develop the practice but haven't really got it off the ground. There's FIT, and Hay has been bought by Korn Ferry' (ExecRemConsultant: 5)
- Big Four, ABCs and Boutiques: 'Ten companies, that does seem like enough choice, but I do think that you get to narrow down that choice pretty quickly. Few have a deep level of expertise on a global basis regarding extensive regulations' (ExecRemConsultant: 5)
- Big Four, ABCs and Boutiques: 'A good proportion of our work relates not only to top management but also GMC or a level below that. RemCos want to see wider information than just the very top group' (ExecRemConsultant: 5)
- Big Four, ABCs and Boutiques: 'In order to get a grip on the issue of directors' remuneration the Government needs to take a more wide-ranging inquiry into this. I think it is clear that there would become conflicts of interest and how you could see how these might work on in practice, and how that might affect beneficially the remuneration of directors. The closeness of the Big Four to the companies, and the way the market works would suggest that, but unless you actually see how that actually happens in practice in terms of the advice that is given to

companies, you are always going to be missing that leg of evidence. Remuneration is at the heart of the original problem of agency...so I am not surprised remuneration is such a sensitive subject because it is at the heart of that relationship and the reason it has become more sensitive in the course of the wider disparity between the pay of directors and the wider workforce, and the lack of transparency around how that works. And there I am specifically talking about the role of ExecRemConsultants' (ROO: 5)

- Big Four, ABCs and Boutiques: 'Whilst I think that we may all have our suspicions that the Chinese Wall between the respective Big Four audit and remuneration advisory functions may be a little bit more transparent than they are purported to be, the very fact that in the audit capacity there are professional organisations that have disciplinary accountabilities and responsibilities and duties does leave me probably more comfortable that there is not. There might be potential for but there is not in practice a real conflict of interest that materialises. Interestingly, my suspicions would probably be aroused more by the Boutiques, who will probably rely more on their ability to generate revenue because of the nature of their 'boutiqueness' than the Big Four or ABCs' (CoyExecRemSpecialist: 6)
- Big Four, ABCs and Boutiques: 'On conflicts of interest, there were certain of those big companies that basically did not come out smelling of roses when you see what happened during the GFC, and it does lead to some sense of scepticism in my view' (CoyExecRemSpecialist: 6)
- Big Four, ABCs and Boutiques: 'Why have Boutiques largely got out of the business in the UK? I think there's probably going to be a time when the UK will follow in the steps of the US, but the US is very much more litigious than the UK - although the UK is heading in that direction' (CoyExecRemSpecialist: 6)

- Big Four, ABCs and Boutiques: 'Auditors and ExecRemConsultants: ExecRemConsultants shouldn't get involved in other things because of this emotion around executive pay. I think that anything that would allow them to be perceived, whether rightly or wrongly, as influenceable would be bad. In terms of the Big Four versus the Boutiques, my experience is that it's all about the individuals advising you, not about the firm, actually, at the end of the day. So I'd attempt to follow the person rather than the firm if I was given free rein whom to pick' (CoyExecRemSpecialist: 5)
- Big Four, ABCs and Boutiques: 'You've got the Big Four that have got a powerhouse of data and knowledge and manpower, and then you've got the Boutiques which are obviously going to be the exact opposite, maybe quite limited at data but can be more hands-on and tailored and bespoke maybe. And then there's ABC in the middle, where you can leverage various bits of knowledge across the business...they probably have some very long-standing work in there. I've never really seen independence as an issue...but I can't imagine what it's like at somewhere like the Big Four. It must always be at the forefront of minds in audit' (ExecRemConsultant:7)
- Big Four, ABCs and Boutiques: 'I've been to a tender process before where we've actually fallen down for not talking to colleagues that have previously...well, that's a Chinese Wall, we obviously haven't crossed it. And I think we lost out because we hadn't used that relationship' (ExecRemConsultant: 7)

- Big Four, ABCs and Boutiques: 'Is there a potential conflict of interest? Do we think that they are under pressure to bend the rules? There's manifestly a conflict of interest if 90% of the firm's business is with management and 10% with the RemCo: you just can't say the firm is objective as a firm whatever Chinese Walls it has internally. Whether or not it affects decisions that are made, I can't judge. In the UK I think that forces here have made RemCo advisory business go to big firms that have enormous financial clout; for example, Big Four give away pay surveys. One of them does much research; I have to say I think it is good research. They had much more variation on long-term incentive performance measures than an ABC competitor. I thought the Big Four firm concerned was really trying to do its job properly. The Big Four are able to charge far more than Boutiques so can hire and pay for top people and they get the big jobs. RemCos want the top firms behind them. The explicit credibility that comes from using the likes of a Big Four lead consultant. It is very hard to build Boutiques now (eg., database issues)' (ExecRemConsultant: 8)
- Big Four, ABCs and Boutiques: 'Big Four lobbying over the Cable reforms, ie., proposed fee disclosure for 'other services'. My understanding is that at least one of the Big Four said that this would put them out of the business. The argument was that they didn't have overall fee information as a consultancy and neither does the client who would have to report it in the DRR - clients won't collect the fee information in a way that can be used...it's just not practical on a world-wide basis to put it together, it's easier for clients to stop using the Big Four (or ABC, for that matter) and stick to Boutiques. In other words, it was argued that

bringing in new legislation would actually take out an important part of the consulting business. This is the same argument as was put forward in the US by the ABC firms at the time of Waxman. The ABC firms lost the argument in the US, but the Big Four won it in the UK' (ExecRemConsultant: 8)

- Big Four, ABCs and Boutiques: 'We lost a particular RemCo 'pitch' to a Big Four firm. The reason given was that their guy had come out of an institutional shareholder representation body at one stage and the client company felt that he was the one who would really be able to help put everything across to the shareholders. That was most important to them, but it doesn't square with the Investment Association's supposed view that we should really do what's necessary for the company. On ISS, I didn't realise until recently just what proportion of their work is actually based not on their generalised model of good governance but on the bespoke models prepared for shareholders' (ExecRemConsultant: 8)
- Big Four, ABCs and Boutiques: 'We value consistency of the data and consistency of approach. I think that the challenge with the consulting firms is that they each bring different strengths. If we were looking to review the provision: the Big Four would major on the financials and performance of the company, ABCs do a good job, have robust data but are constrained in their thinking, whereas Boutiques are variable in what they bring - dependent on where they've originated from. So it's a question of legal/technical versus financial perspective' (CoyExecRemSpecialist: 7)
- Big Four, ABCs and Boutiques: 'So overall, I would say it is very difficult for the Big Four to manage conflict, any conflict, satisfactorily. I'm not saying it's impossible, but I think it's very difficult for them to do that' (ExecRemConsultant: 1)

- Big Four, ABCs and Boutiques: ‘You know, where the Big Four provide other advisory services, I think it's very difficult for them...I think that, you know, perception is very important here...a multi-faceted firm would have to demonstrate effective Chinese Walls, processes, to keep information confidential as between divisions within the firm’ (ExecRemConsultant: 1)
- Big Four, ABCs and Boutiques: ‘There's probably a bigger issue, full stop, in the concentration of financial advice, in such...in a smaller number of firms in this country. I mean, when I started my professional training, we used to talk about the Big Eight, if not the Big Ten, and now it's the Big Four’ (ROO: 1)
- Big Four, ABCs and Boutiques: ‘Remuneration is such a tiny element of most companies' costs. I appreciate it has a disproportionate impact on the people at the top, who have a disproportionate impact on the performance of the business. But, I still think that Bud Crystal was exaggerating his own importance’ (ExecRemConsultant: 2)
- Big Four, ABCs and Boutiques: ‘I think that conflicts of interest are satisfactorily addressed by Big Four firms. The accounting firm is being regulated. Remuneration advice is just another service like property valuation or private equity or whatever it might be. I think the communication is lacking at the moment. Big Four firms may feel that this confidential information is being disclosed if you put real fees in respect of each service line’ (NED: 1)
- Big Four, ABCs and Boutiques: ‘I think it would be possible to have independent ExecRemConsultancy in the UK, and for them to go on to the next generation if the market demanded it but at the moment it doesn't’ (NED: 1)

- US Big Four, ABCs and Boutiques: 'Particularly due to US 2009 fee disclosure reforms, plus beefed-up independence requirements, independence and conflicts are now satisfactorily addressed in the US. Conflicts, where existing, need to be explained and addressed. Big Four and 'other work'? I am not particularly sensitive to it. The Big Four have their tentacles in there [ie., being external auditors and for also providing other advice to the company concerned - not RemCo, obviously]' (ExecCompConsultant: 1)
- Big Four, ABCs and Boutiques: 'Regarding the Big Four, I used to think that one of the things Boutiques used to bring to the table was what they were doing was their main work for their client, and so therefore they were very concentrated on it. And it was certainly the thought that they brought more innovative solutions to a particular problem than the perhaps bland, large firm solution' (ExecRemConsultant: 9)
- Big Four, ABCs and Boutiques: 'They actually acquired the UK Boutique consultancies at a time when growing to a certain level was either so it could be bought or to go to Stage Two which would be costly. Also in the UK we have perhaps seen this disclosure of the value of pay benefits which meant that the multi-skilled large organisation probably had those particular skills to say that they can give this holistic advice. I think it would be difficult for an independent consultant to get off the ground in the UK today' (ExecRemConsultant: 9)
- Big Four, ABCs and Boutiques: 'The ABC firms, with actuarial skills to hand, should be very well placed to do ExecRemConsulting for all sorts of reasons. I'm intrigued why it should be, apart from legislation, that the US scene is where the Boutiques now have power. It doesn't seem to be

a problem for the Big Four firms to audit and give tax and aggressive financial advice to firms, whereas if you advise on pay you can't do the audit' (ExecRemConsultant: 9)

- Big Four, ABCs and Boutiques: 'I think that multi-service firms can provide independent advice, do provide independent advice. That's the starting point on all this. They need to do that in a way that is measured and is in line with our internal governance protocols - and to make sure that we continue to do that on an effective and appropriate basis' (ExecRemConsultant: 10)
- Big Four, ABCs and Boutiques: 'I don't see Boutiques as a magic bullet to questions about independence. The underlying independence concern is that management may play the ref and kind of move the ball in their favour. You could argue Boutiques are as open if not more open to that type of commercial pressure because they're more wholly dependent on their RemCo relationships for the success of the organisation. In that respect they are probably more susceptible to pressure from the management side than a multi-service firm. In many other accounts of business relationships there is the potential for conflicts of interest. Long-standing internal protocols we had before the RCG's VCC. Consulting team operates independently within the multi-service firm. It doesn't take part in cross-selling activity within the organisation and so on. Very strong rules and interests in place to ensure multi-service firms provide independent advice. If RemCos felt they were not receiving independent advice they would move to a different advisory firm. There are safeguards on both sides of the relationship' (ExecRemConsultant:10)

- Big Four, ABCs and Boutiques: 'I'm not a fan of one's auditors also being one's ExecRemConsultants. I think there's too much conflict there. The auditors have got an explicit duty to shareholders to account for numbers and I think the art of the ExecRemConsultant is an art so it's a bit more tricky than that. And you don't want to upset management one way and then you've got an audit coming round or vice versa (we had a Big Four firm as auditor and they are able to get around these rules and be our ExecRemConsultants but I felt more uncomfortable probably than they did). I'd be in favour of that split. I'm not sure I'd be in favour though of splitting and saying Big Four no longer be ExecRemConsultants even if they're not the auditor, because why not? Need a lot of input from a lot of companies and lots of different views on how different people do these remuneration schemes. I would have thought one of the dangers is that you end up with a fractured market which actually doesn't provide the advice you need' (CoyExecRemSpecialist: 8)
- Big Four, ABCs and Boutiques: 'If you go down the US route, I'd be nervous that they've fractured the system so you're not getting proper advice because you're not getting comparables etc. As long as the auditors are not doing our remuneration advice, I'm pretty relaxed who does it' (CoyExecRemSpecialist: 8)
- Big Four, ABCs and Boutiques: 'The nature of the advice that is given actually transcends the location for the firm from which it is provided, so it makes very little difference whether it is Big Four or ABC providing the advice' (ExecRemConsultant: 12)
- Big Four, ABCs and Boutiques: 'Inside ABC firms the alternative services (other than ExecRemConsulting) were to pension funds and companies for administration services. Those to pension funds were predominantly actuarial evaluation of assets and liabilities. The trustee body, particularly

inside defined benefit schemes, was independent of the client company, and needed separate advice as to covenant etc. The trustees were an independent client...sponsoring company independent. Actuaries doing actuarial evaluations, it's a world apart from executive compensation consulting' (ExecRemConsultant: 12)

- Big Four, ABCs and Boutiques: 'As for the idea that the CEO might dangle the carrot of additional favourable contracts in exchange for higher executive pay, I've only once experienced this and had it solved by a discussion with the relevant RemCo Chair. The Big Four live or die by their reputation with Boards. Commercial interests are aligned. Big Four capable of providing robust and independent advice. Otherwise, they will be reputational toast. Also Big Four have reputation as auditors to bear in mind. Singular to the Big Four but in a comparable way applies to any professional services firm' (ExecRemConsultant: 11)
- Big Four, ABCs and Boutiques: 'In the US, are spin-outs more independent anyway? Probably not. It is surprising though that there are not more Boutiques in the UK. Perhaps because executive pay is so complicated it requires broader capability than if an individual were advising just on benchmarking. The UK is a unitary Board structure, with NEDs having both strategy formulation and monitoring roles...the show is kept on the road most effectively by singular advisor responsibility to the RemCo, but not hermetically sealed from management. UK RemCos have chosen this role for ExecRemConsultants' (ExecRemConsultant:11)
- Big Four, ABCs and Boutiques: 'I know that when considering appointing an ExecRemConsultancy advisor, we are looking at one of the Big Four accounting firms. We took into account where we were in our auditor re-selection process because we didn't want to appoint an

ExecRemConsultant and find that they had to resign almost immediately because they'd been appointed as auditor. They of course said it did not make any difference. And that it was fine. But clearly it wasn't' (NED: 3)

- Big Four, ABCs and Boutiques: 'The Big Four, they've got so big now and they provide so many services. Looking at the sort of McKinsey concept that you don't win new clients, you just supply different services to existing clients from time to time. Sometimes it's audit, or tax, or consultancy. Sometimes it's remuneration. So long as you keep your clients, you're going to get some part of your clients' business. But it may have always been the same. I think there are difficulties there. I don't really know how much control these big financial services conglomerates get into the actual operations of the individual units' (NED: 3)
- Big Four, ABCs and Boutiques: 'A Big Four lead advisor had been operating at the highest level for a long time, very effectively from a technical point of view, and was also able to give bad news - because female advisors in this field are able to give such news better than male counterparts. I don't know how that works, but it does. It's a very interesting sort of psychological reality. She didn't 'grow up' with that firm. The fact that it has been used by organisations for so many aspects of their business, they are familiar with the brand. The Big Four firm is going to get a shot at a beauty parade and ultimately the last three of a shoot-out of the RemCo advisor selection process, but much more likely is the fact that the Big Four firm actively uses its network to generate referrals. It is a referral business we don't have access to. For example, a US individual moving to the UK will generate tax, cost of living, thoughts on remuneration design' (ExecRemConsultant: 13)

- Big Four, ABCs and Boutiques: 'There's an inherent imbalance in the world of ExecRemConsultants where in the UK we have made it so easy for the large players to exploit this loophole, that inevitably you end up with a very small number of organisations doing all the work and the outcome of that is very dangerous. Most remuneration programmes are off the shelf/prêt-à-porter design because RemCo Chairs are risk averse for very good reasons. They hire ExecRemConsultants who have a proven track record of having installed exactly the same windows in the houses' (ExecRemConsultant: 15)
- Big Four, ABCs and Boutiques: 'There is a piece of research right now counting the number of FTSE companies with median salary, median to upper quartile bonus, performance shares of one-times salary and tied to TSR versus an index. Boom. I mean you know exactly what I am talking about. Plain vanilla, and it runs into the hundreds. Multiply ExecRemConsultants' fees by three, as internal processes are far more expensive, then look at the number of pages in the annual report. An absurd amount of effort to do what is effectively the same job company after company after company. There is an inherent breakdown in the competitive landscape...while all this is going on executive pay continues to rise inexorably' (ExecRemConsultant: 13)
- Big Four, ABCs and Boutiques: 'UK companies are much more international than US ones, and need big firms with international capabilities to support them. When RemCos make their appointments they do take into account conflicts of interest. We're always asked to provide information about the broader relationship...they probe us on what our protocols are that we have in place to manage that, but they trust our protocols and the RCG's VCC probably helps give them comfort' (ExecRemConsultant: 17)

- Big Four, ABCs and Boutiques: 'My assessment of the market is that clients are comfortable that between them, their protocols, us and our protocols any potential conflicts can be managed, whether its Big Four or ABC. Obviously, the Big Four have a specific carve-out where they are the auditor they can't be the ExecRemConsultant to RemCo. Appointments come up for grabs because a Big Four stands down as auditor. I think that works fine' (ExecRemConsultant: 17)
- US Big Four, ABCs and Boutiques: 'I think they do. At no point in my career have I felt any pressure whatsoever in the advice I gave, because of the broader relationship with the firm. We are quite clearly not expected to be part of client relationship management teams. We're not expected to cross-sell, it's as simple as that really. Not once have I been asked nor have I felt the need to consider changing my advice because of the broader relationship. Once or twice I've felt that our relationship with the firm is sufficiently big that I need proactively to check with the client that they're comfortable...the optics are such that people outside might question our independence - and the clients have been comfortable. When our merger happened we invited clients to have a conversation. Not one client was bothered, you know...maybe different for Big Four where the client has said this is too big to ignore, and then parted company. But ABCs are not faced with that. Our relationships are never remotely that big' (ExecRemConsultant: 17)
- US Big Four, ABCs and Boutiques: 'In the US, 99% of the market is now provided by Boutiques. In decades of consulting I have never come across a compromising situation, but even the appearance of conflict matters. Why would you want to have this appearance of conflict? The UK position has the appearance of conflict. I enjoy being a pristinely-independent advisor. In the US, the fee disclosure provisions had been a really important factor in CompCo advice being spun out from ABC

firms. The various fee disclosure provisions changed a whole industry (albeit a relatively small one)' (ExecCompConsultant: 3)

- Big Four, ABCs and Boutiques: 'The requirement for separation came about in the US, and which several former colleagues took great advantage of. I think that's unfortunate because there would be advantage to Comp Committee and management if the consultants they were using had or were able to have a broader perspective of what impact these plans might have for the total employee group. Overall, I think the requirement for separation, though understandable, has been unfortunate' (ExecRemConsultant: 18)
- Big Four, ABCs and Boutiques: 'In the US they already had, when the Enron issues came round, they already had Fred Cook there saying: "I'm independent". So they had a firm that was uniquely a clean skin. New Bridge Street was not quite big enough to pull that trick. They had their clients, but most of them were not FTSE Top 50, whereas Fred Cook had created a business which showed there was an alternative approach. New Bridge Street eventually sold out. But executive pay in the US at that time was much bigger than here. In US, accountancy firms less into executive compensation practices anyway; whereas in the UK all of the accounting firms had been involved in privatisation and had developed their executive remuneration practices around that time' (NED: 4)
- Big Four, ABCs and Boutiques: 'The reason you could argue it happened in the US was because the ABC firms, which dominated the market, weren't sufficiently strong to lobby against it and their pay models were not sufficiently enticing to prevent their best people from forming Boutiques and remunerating themselves. The UK is dominated more by the Big Four; so I think the chances of the Big Four having to break off

their executive compensation business is a bit smaller than it was: they'll either prevent it or it will be less attractive' (ExecRemConsultant: 17)

- Big Four, ABCs and Boutiques: 'In the US the requirements around disclosure are much wider-range of activities than here in the UK (we're really focused just on advice in relation to pay of executive or Board). Corporate governance and the two markets is quite different route. The demand for Boutiques has been much stronger in the US, as a result it's probably less to do with concern about the cross-selling and conflicts of interest around that. More about the fact that in the US you are much less likely to have an independent Company Chair. Outside directors in the US want their own advisor, and also management wants its own advisor. Division of the Board in this respect of two separate groups much more clearly than you tend to find in the UK environment - where the norm is for there to be a strong independent CoyChair kind of backing up the NEDs, where the buck ultimately stops with the Board. US demand for truly independent advice on the NED side, the outside director side and the management side, and I think that that's been picked up in the political debate. Over here there has been a much stronger political debate about it, which reached a peak five or six years ago. Much more of an issue in US market because of that structural Board reason. In UK unitary Board more of a reality in most cases and therefore there tends to be a higher degree of trust expressed in the relationships between executive directors and NEDs' (ExecRemConsultant: 10)
- Big Four, ABCs and Boutiques: 'ABC firms are major players in the US and UK. If you look at the FTSE 350 or All-Share you'd see ABC higher up the list probably. So it would be more of a balance between the Big Four or multi-service' (ExecRemConsultant: 10)

- Big Four, ABCs and Boutiques: 'I wonder whether it's to do with the fact the Big Four tend to advise Boards across a wider range of issues than the ABC firms. There may be more touchpoints for the Big Four with the Board, with the Audit Committee primarily, but obviously other areas potentially as well' (ExecRemConsultant: 10)
- Big Four, ABCs and Boutiques: 'ABC firms: The RemCo may be the only relationship where they directly impact with the Board. Benefits – may be trustee relationships and may be direct ones too. Less likely in any given scenario that there will be other material connections with the Board than Big Four' (ExecRemConsultant: 10)
- Big Four, ABCs and Boutiques: 'So I wonder if there's a Sarbanes-Oxley argument that in the US where penalties and pitfalls are greater for even misunderstandings around advice at Board level across the broader range of services. The Big Four there might have taken a more conservative approach to managing those relationships and saying let's stick to our bread and butter stuff here. We're going to focus on audit relationships' (ExecRemConsultant: 10)
- Big Four, ABCs and Boutiques: 'In the UK environment perhaps a little more forgiving around that and therefore you see the Big Four participating on the same basis in the market as the ABC firms' (ExecRemConsultant: 10)

- Big Four, ABCs and Boutiques: 'Two of the UK Big Four have built up a strong business in remuneration consultancy a relatively long time ago. Around share arrangements they built that into a much broader remuneration advisory services. I'm sure the other two of the Big Four would love to be in the same position but they did not break into the market at the same time. To some extent the strength of the business pre-dates the debates externally around independence and risk. They may in absolute terms be small compared to other material elements of their business, but built up from lots of small businesses at the Big Four. They're successful; margins are high. I'm sure it's not something that any business would be keen to walk away from unless there was a very good risk-based reason for doing so. They've not reached that tipping point in the UK but they may well have done in the US' (ExecRemConsultant: 10)
- US Big Four, ABCs and Boutiques: 'UK is certainly further forward and more regulated, just all kinds of compliance and governance requirements that make it a more difficult and rigid environment to operate in the UK than the US. The executive compensation consulting business in the UK is very different from the US. In the States the CompCo work is dominated by Boutique firms. I don't know if it's good or bad. But why? You would think that given what's happened in the UK from a governance standpoint that Boutiques would have thrived in your marketplace' (ExecCompConsultant: 4)

- US Big Four, ABCs and Boutiques: 'I look at the large more successful Boutiques in the US today and it would be hard for me to imagine that they would ever sell themselves out to come back into, to be folded back into, one of the ABC firms again. I don't think those consultants wanted to be released into Boutique firms. It was only because of this kind of sea change. It wasn't because they wanted it to happen. It happened to them, and they viewed that as being the most prudent and logical thing to do and a response to that. I don't think there was that pent-up feeling that they all of a sudden would have done it on their own, if it had not been forced upon them' (ExecCompConsultant: 4)
- Big Four, ABCs and Boutiques: 'I think the market should have a choice and I don't think we should only have chartered accountants...or just ABC firms or just Boutiques. The opportunity for the market to have all three of these, which they currently do between Deloitte, PwC or Mercer, or WTW or FIT. I think there is an opportunity for them to pick and choose what they think they need, and pick and choose what they think they like. I think having a choice is a good thing for the market, being the capitalist I am. For those of us who are not in the Boutiques...when you look at some of the Boutiques is there a conflict of interest when 50% of your revenue comes from one client? Is there a greater desire to keep these people happy? I think there's the opposite of conflict in terms of a single client reliance' (ExecRemConsultant: 19)

- Big Four, ABCs and Boutiques: 'Big Four, no one client makes above 1% of a particular Big Four firm's revenue overall, so yes over-concentration of Boutiques. I think it comes down to the individual. The accounting firms have so many regulators that review their work, and make sure they're doing the right thing that they actually make sure there are internal procedures. The Big Four are completely protected by their risk people who would never let us be influenced by another partner at all. We have our own code of conduct. The reality is that Big Four in particular, even more than the ABC firms, we are so much more used to conflicts of interest...two sides of an M&A transaction and all that sort of stuff. They are much better at segregating the contract into sizeable chunks and dealing with it' (ExecRemConsultant: 19)
- Big Four, ABCs and Boutiques: 'RemCos are not stupid...if you turned up one day and decided that you are super supportive of something...how can you be supportive if it's something you've never done before...they'd see through it...the idea of these committees being hoodwinked by a combination of advisors and management is just wrong. I like the fact there's choice in the market. I think it would be really bad if all ended up in Boutiques. Equally, I think it would be really bad if all the Boutiques disappeared. Good that is there is a choice of chartered accountancy firms, which have certain skill sets around how other things get done, and a certain level of professionalism. The ABC firms bring a nice mix to it' (ExecRemConsultant: 19)

- Big Four, ABCs and Boutiques: ‘The US has gone to a much more Boutique model. A lot of the ABC firms spun out their senior partners. I would argue that quality of advice in the US isn't the greatest threat to be honest. If you look at the American market, it was never appropriately advised. Far too much data driven, not nearly enough advisory driven...trying to help them make the right decision. Some of the things that are believed about our type of people, remuneration advisory people, are true in the US. They come in with data, and say: “You should get more” (ExecRemConsultant: 19)
- Big Four, ABCs and Boutiques: ‘It's just bizarre, sitting on the other side of it as a UK-trained advisor, from that perspective. You just never see that in the UK. I always preferred the model where clients have a choice. I don't think that there is a conflict. The drive behind the US model right now has all this perception of conflict, particularly around some of the ABC firms, who had these huge outsourcing-type contracts with companies, felt right, we can't be seen to be independent by doing that. In the US where it is more data driven and the data is subjective, and you're seen as much more allied with the executives, and trying to get the executives a pay rise, then perhaps it is right that there are more Boutiques but I don't think it happens at all here in the UK. If it does, I certainly don't know about it. We don't all need to be in Boutiques’ (ExecRemConsultant: 19)

- Big Four, ABCs and Boutiques: 'Big Four: I think we've got ourselves into a very bad place where you have four firms providing multiple services across multiple disciplines with very, very little choice for the end user in some of those areas. In the FTSE 350, the audit is going to be undertaken by the Big Four. So that's one of the Big Four gone. Companies are going to have truly international/global tax affairs to manage. Well, that can only be provided by one of the Big Four. Then you start to get a little bit more choice about whether you use them or not, for example corporate finance. It's frankly a royal pain in the neck being cross-sold to constantly in the sense of anti-bribery and corruption advice and internal audit. You've got the Big Four providing internal audit services, again, for a FTSE 100 who else actually provides that now? We outsource internal audit. You're using them across three or four disciplines and they're all trained to cross-sell their products and their services and they're all manifestly conflicted, in my view' (CoyExecRemSpecialist: 11)
- Big Four, ABCs and Boutiques: 'My not very sophisticated point is that I just don't think it can serve the best interests of the company. Particularly if they're providing the audit. Providing guidance on anti-bribery and corruption controls? Then they go in to audit a site where they're actually deficient. Not because of the implementation, but due to the advice' (CoyExecRemSpecialist: 11)

- Big Four, ABCs and Boutiques: 'I personally will not be in favour of using Big Four for remuneration services. Having said this, they have some excellent capabilities and expertise so it's a very difficult one. I have lots of problems as the user end, with the Big Four. Do we need that strength and depth? I don't know. How is the statutory rotation of auditors, and the compulsory tendering of auditors, how's that going to play out in terms of who will be allowed to tender and who won't? Very genuine conflict between tax advice or the internal audit...you wouldn't use your internal and external auditors to do. You wouldn't use the same firm. I would never use the same firm anyway. If you are using all the Big Four in some capacity, what do you do come the tender? Are they allowed to tender, but conflicted out of the other services afterwards? Then you've got the law of unintended consequences, or domino effect, you've got to change your tax advisors. It would be much easier if you had a far greater level of independence' (CoyExecRemSpecialist: 11)
- Big Four, ABCs and Boutiques: 'ABC: I don't really see a particular conflict in there. My perception is that it's easier in that circumstance to wear two hats. They don't irritate me with cross-selling. An audit partner will' (CoyExecRemSpecialist: 11)
- Big Four, ABCs and Boutiques: 'Boutiques: Even if it did serve our purposes to have a strong cadre of independents that we could draw on, and I think it probably would, is it actually realistic anyway? It's not realistic to think they will survive independently, I think a strong group of Boutique advisors, independent advisors, would serve the industry well' (CoyExecRemSpecialist: 11)

- Big Four, ABCs and Boutiques: 'Small Boutiques are more likely to bend in the wind than the Big Four or ABC firms. My RemCo shared this view. More comfortable with Big Four or ABC because the latter will be viewed as academic and mathematical, compared to Big Four being seen as business advisory in nature. Overall, Big Four have an advantage over competitors. Believe the conflicts of interest are satisfactorily addressed by the Big Four: they would say if they thought something was wrong' (CoyExecRemSpecialist: 12)
- Big Four, ABCs and Boutiques: 'US: They'll have less noise from shareholders because what's unique about the UK is the geographic concentration of vocal shareholders. The US, they're spread all over the place and they're much more diversified. Although UK share registers have become much more diversified...they still all pontificate together. So anything they like or don't like, they are more effective at excluding things they don't like. My observation of governance in the UK around pay is that shareholders have actually been pretty effective on shape, but totally ineffective on quantum. Notice periods, that's their biggest, greatest successes' (NED: 5)
- Big Four, ABCs and Boutiques: 'The reason the US has Boutiques is because effectively they sliced-off pieces of the big ABC firms. It's not that they created that many of them, although they did because they had had people like SCA, they had Fred Cook. In the US there was a thriving healthy middle ground of broad HR/actuarial practice because it's a different market. It's a market that is relatively easily capable of generating sizeable amounts of data so that you can have robust data because you've got a big market. The UK is actually a great deal more difficult. But I think there should be more Boutiques. I think Boutiques are much less independent than people think. You can't create a business with the 1% requisite figure restriction because you've got to

start with one hundred. So it closes the market to new entrants because you can't begin by having two or three and then being fabulous and people flocking to your door. With a lot of these things you have to think about the consequence of the decision you are making and working out whether the cure is better than the disease' (NED: 5)

- Big Four, ABCs and Boutiques: 'It's not just about the numbers, it's about the relationships' (NED: 5)
- Big Four, ABCs and Boutiques: 'ExecRemConsultants have an important role to fulfil. Big Four firms, by their very nature, prefer not to have their head above the parapet. Another thing that prompts me to rethink the status quo about whether we're doing it the right way is an interesting challenge. I would see the consultant role as how does one enable decision-makers to make decisions in way that are beneficial for UK PLC. The High Pay Centre has a perfectly legitimate axe to grind, but an axe it is. Concern if unvarnished multiple between the CEO and wider workforce is published' (NED: 5)
- Big Four, ABCs and Boutiques: 'Too big to fail? You've got to have done something that's going to imprison two-thirds of your partners before that's going to happen. They should never have let PwC merge' (NED: 5)
- Big Four, ABCs and Boutiques: 'I don't personally see conflicts of interest. Audit fees are so much larger than anything on the pay side. More of an issue with Boutique firms of consultants. It is a much larger risk for a Boutique firm. The UK has more competition than the US, with Big Four and ABC. Anyway, the relationship is a personal one with the appointed ExecRemConsultant (ie., not just the consulting firm). The question is how much can you trust this particular advisor? In a Big Four, one could

always ask for a change of partner in that firm. We have a small firm as ExecRemConsultant, which has raised succession issues. People see Say-on-Pay as a protest vote: pay hits the hardest' (CoyExecRemSpecialist: 10)

- Big Four, ABCs and Boutiques: 'The big firms are so huge they are usually in completely different departments...I am not sure...I think the perception is worse than the reality. I do think companies should not put all their eggs in one basket, but ultimately you really want to go where you are going to get the best advice....otherwise, what's the point of having it? Unless it's purely a fig leaf and really all that's wanted is a tame consultant who will come along and produce a report that says do what you want. And I think that's much easier to do with a small firm than it is with a big firm' (CoyExecRemSpecialist: 9)
- Big Four, ABCs and Boutiques: 'It's the robustness of the data and the thoroughness of the research and, of course, there are very good, competent small firms and I'm sure that they do a perfectly good job. That is an interesting conundrum as to why ABC firms got out of the job of doing that in the States, and I assume it probably is related to reputation and post-Enron and the ever-present threat of litigation' (CoyExecRemSpecialist: 9)
- Big Four, ABCs and Boutiques: 'My perception of politicians' involvement is that they generally don't have much grasp of detail and they just have an eye for the political bonus or headline that they can obtain from it. I'm afraid I'm very cynical about them' (CoyExecRemSpecialist: 9)
- Big Four, ABCs and Boutiques: 'Cadbury by and large came from industry and business itself so there was a kind of logic that followed from that. The difference comes when you have Governments saying; "Oh well this

isn't enough, you've got to do more and we'll impose this that and any other on you". I don't think politicians 'get' business, because they've never worked in it and the civil servants don't, so they approach it in very different ways' (CoyExecRemSpecialist: 9)

- Big Four, ABCs and Boutiques: 'In one particular RemCo situation, I've had the comparison of two Big Four firms where there was one who was actually part of the incumbent audit situation, and they performed extremely poorly. But in actually carrying out the brief, I'm dubious that I will put that down to any type of conflict. They detracted from their firm's reputation overall by performing poorly, rather than in any way exploiting any kind of link. I do not think the problems are about in conflict. In fact, there were some quite clumsy and cumbersome permissions we had to get in order that they could do it. The other one as far as I'm aware didn't suffer in any way with their Big Four connection' (NED: 6)
- Big Four, ABCs and Boutiques: 'In the insurance industry, a particular big broker can never be independent from my standpoint and another one to a certain extent sit in the same camp. Possibly on occasion we've used a Big Four because there is a feeling they're better at dealing with conflicts rather than ABC firms (with brokers) who do not have the best reputation in the world for handling conflicts' (NED: 6)
- Big Four, ABCs and Boutiques: 'Referring to UK ABC ExecRemConsultants: I am not kept awake generally by conflicts, but these two who I would've treated as seriously independent players in the market up until recently who are now out of the game because of their connections' (NED: 6)

- Big Four, ABCs and Boutiques: 'ABC has a slightly flatter organisation structure than the Big Four. It might be more square-based (than triangle). Payment thing as well, with accountants still being able to pay more as partnerships.' (ExecRemConsultant: 5)
- Big Four, ABCs and Boutiques: 'What's really interesting about the UK market is the relative absence of Boutiques. The Boutiques' market share is negligible. Boutiques that have been successful have clearly been on a path to sale. It's quite clear UK firms don't feel the need to seek advice from firms that are not part of larger firms. Contrast to the US, where the Boutiques' market share at CompCo level is probably at 60%. The market has clearly moved to a two tier model of management work and CompCo work, and Boutiques have got the largest share of the latter. This has not happened in the UK' (ExecRemConsultant:17)

***4.3.9. RITG2:SQ2 - 'Do you consider that any potential conflicts of interest are currently satisfactorily addressed in the situation where a professional services firm (whether Big Four, ABC or Boutique) provides other advisory services to a client company as well as being appointed to advise the RemCo concerned [Sub-coding: 'COI / ExecRemConsultants']?'***

- COI/ExecRemConsultants: 'Potential conflicts of interest: I don't see the pressure, at the end of the day. Will it change the nature of the advice or the quality of the advice? It shouldn't because it's individuals who are giving the advice' (CoyExecRemSpecialist: 3)
- COI/ExecRemConsultants: 'Potential conflicts of interest: There is a separation in the States. It's a practical separation, between executives, on the one hand and directors, on the other, and trying to fit that into a UK context is slightly an oversimplification, because the US directors are

equivalent to our NEDs, and the execs are equivalent to our executive directors, or the CEO, who sit on the Board' (ExecRemConsultant: 1)

- COI/ExecRemConsultants: 'Potential conflicts of interest: I don't think it would solve the problem completely because there's still this kind of: "What is the role of this?" Unless you redefine what you are asking ExecRemConsultants to do there is always going to be some underlying conflict in terms of your RemCo versus your management even if you take away all of the other work piece' (CoyExecRemSpecialist: 2)
- COI/ExecRemConsultants: 'I think there is a clear perceived conflict of interest, and in that sense, I am slightly surprised clients aren't more concerned about this issue, or corporates I should say, rather than clients, aren't more attuned to this issue than they are. The underlying skills and quality of advice must be similar. I think there is a need for all of the firms. Some clients see RemCo advisory work as distinct from broader advice on pay - related issues through the organisation, and some want a one-stop shop, and some have a very sophisticated in-house Reward function and some don't. If you don't have the internal resource and you need extensive secondment services from a provider, that will gravitate you to a bigger firm than a Boutique one' (ExecRemConsultant: 4)
- COI/ExecRemConsultants: 'UK: It seems like the way that you manage it. I don't think there's necessarily a model that needs to be working over here in the same way as the US. I think if it is carefully managed I don't see why one should change from the UK practice' (ExecRemConsultant: 7)

- COI/ExecRemConsultants: 'It comes down to the professional integrity and experience, knowledge and experience of a particular consultant, as opposed to the view of how a particular firm operates in the market place, as far as I'm concerned. I've always worked with one of the Big Four or ABCs, as opposed to Boutiques. I've not yet found a Boutique that I've wanted to engage as a consultant. I agree that it does seem extremely odd that virtually all of the Boutiques have gone from the UK. I also find it odd that a Big Four firm has managed to become sort of a leader in the field of remuneration consultancy. I think it was an accident of fate actually' (NED: 2)
- COI/ExecRemConsultants: 'The whole point about remuneration is it's supposed to be dealt with by an independent body. A RemCo is made up of independent NEDs, therefore it would rather undermine that if they were being advised by a body that actually, were maybe perceived, as being conflicted in some way or another: conflicted between the relationship with the executive directors and the independent NEDs. I'm not aware of anyone taking significant issue with this in any particular instance' (City Lawyer: 4)
- COI/ExecRemConsultants: 'The Big Four have been treading a little more cautiously and weighing up the pros and cons to them of not providing advice in different respects and what is the most valuable avenue for them with a particular company. It doesn't seem to have queered the pitch unduly for them. I'm not sure how much the remuneration area of a particular business, or indeed an ExecRemConsultant would come into contact with executive management, as well as NEDs in the RemCo. NEDs and RemCo Chairs are pretty robust characters and will pretty quickly suss out any extent to which advice they're receiving might have been affected by management's views' (City Lawyer: 4)

- COI/ExecRemConsultants: 'Often, on an IPO, there isn't a RemCo constituted properly, until quite late in the process when you may have an independent RemCo Chair appointed, who is trying to run the remuneration piece, but the people doing it, on a day-to-day level, are running it from the company's perspective, tend to be the CoySec or HRD, along with the executive management team. Often the management team will push the envelope, against the advice that is being provided by the ExecRemConsultants. This means that one needs a robust RemCo Chair' (City Lawyer: 1)
- COI/ExecRemConsultants: 'I'm not sure that ExecRemConsultants are more likely to be conflicted, but I think they need it to be more rigorous in how they...in recognising who their client are, and how they deliver the advice' (City Lawyer: 1)
- COI/ExecRemConsultants: 'You have to rely upon professional integrity and the need to preserve the good name of the organisation you represent, in order to deal with potential conflicts of interest, because I don't think that a set of regulations can deal with all the complications and general messiness of life' (ExecRemConsultant: 2)
- COI/ExecRemConsultants: 'I'm genuinely not aware of people being conflicted and biased actually. I'm genuinely not. Professional people are very jealous about their integrity. The fact that your judgement might be more or less aggressive than mine is not a question of conflict' (ExecRemConsultant: 4)

- COI/ExecRemConsultants: 'In terms of conflicts of interest, I'm not sure I've ever really seen that and maybe it was because when I was in consulting I was too junior to have any visibility of it. I was never aware of any pressure being put on the advice given by the ExecRemConsultants because there was another piece of work in the offing or a risk perceived associated with that. I think that there is a lot more objectivity now in advice than there used to be. I don't think the risk of them wanting other advice would deter us from using a Big Four firm if we thought they were the ones to give the best, most value added input to the RemCo' (CoyExecRemSpecialist: 7)
- COI/ExecRemConsultants: 'I think the RemCo themselves are sufficiently independent-minded that they're not going to be led and not going to seek advice that is not straight down the line. I think the independence concerns simply are probably overplayed. Certainly in terms of the relationship with the organisation. I think risk is more likely regarding individuals and their relationships with individual consultants than arising as a result of the organisational relationships' (CoyExecRemSpecialist: 7)
- COI/ExecRemConsultants: 'There are lots of potential conflicts; for example, between individuals on the RemCo, advisors providing services to the RemCo and also other services etc. One cannot get rid of all conflict...one has to have independence of mind. It's not just a Big Four issue, whatever the nature of the firm there will be conflict. RemCos are in the driving seat in understanding conflict issues...the market should decide which firm should be selected and transparency is also important (frequent discussion of other services we may wish to provide a company). Big Four is well used to discussing with the clients the audit rotation/conflicts (clients are all over what the Big Four are doing)' (ExecRemConsultant: 11)

- COI/ExecRemConsultants: 'For large advisory firms an individual client would represent a pretty insignificant proportion of fee income. If the CEO wants to get rid of the ExecRemConsultants the RemCo may put the appointment out to tender. If you consistently provide dodgy/bland advice you will be caught out by shareholder voting results. A RemCo knows when it is getting independent advice - and the appointment is driven by RemCos' (ExecRemConsultant: 11)
- COI/ExecRemConsultants: 'The perceived problem of ExecRemConsultants is highly overstated; consultants do not set pay. I'm not hugely troubled by the conflicts that exist, they can be managed with appropriate safeguards' (ExecRemConsultant: 11)
- COI/ExecRemConsultants: 'Big Four/ABC potential conflict of interest satisfactorily addressed? I'm extremely cynical as to whether this is the case. If you want independent advice given to RemCos then you should have a firm which is not in other ways dependent on the goodwill of members of the Board. In the case of Big Four/ABC that clearly isn't the case. That leaves the so-called independent Boutiques in a potentially favourable situation, but then of course one would have to be fully aware of their honesty and uprightness in each case. Many will of course be beyond reproach' (ExecRemConsultant: 13)
- COI/ExecRemConsultants: 'Conflicts of interest satisfactorily addressed? Dependent to a considerable extent on the professionalism and determination of the ExecRemConsultant concerned and whether he or she is willing to stand up to pressure to give the answers desired even if that might, as it sometimes did in my case, potentially create issues for the consulting firm vis-a-vis its other interests. It's more proceduralised now than it was then, much more rule bound. If 'other work' then there would have to be a very strict arrangements in place to ensure that those

giving advice in this area were not influenced by other parts of the firm. You have to rely to a great deal on the integrity of the individual consultant and whether he or she is prepared on occasions to be unpopular or, even as I have on occasions, given unwelcome advice'

(ExecRemConsultant: 13)

- COI/ExecRemConsultants: 'My understanding, knowledge and familiarity with the deep-seated cultural differences between US and UK. In the US there is a very legalistic approach to these matters and therefore if there is any hint of professional legal problems they will very rapidly devise structures to avoid them (which I think in this particular case is highly desirable). In the UK, we have a tendency to fudge these things. There is more scope in this country for influences to be extended in areas where they shouldn't be. You are ever more reliant on the integrity of the people doing the advisory work. The consulting work. To the extent that it has become more proceduralised in the UK than in the past, that danger is lessened but not entirely done away with' (ExecRemConsultant: 13)
- COI/ExecRemConsultants: 'I can only speak for the firms I have worked for; I did not feel any conflict of interest issues - meaning you gave your management what they wanted because management control the selection of ABC actuarial or benefit advisors. I think independent firms by definition solve many problems because it's the only work they are doing. But a Boutique consultancy could easily fall into the same trap, meaning the lack of independence because they've become dependent on one or more clients for the majority of their revenue. It can be hard to capture an appointment and become an appointed ExecCompConsultant, so once you've got them you really want to keep them because it's so expensive to replace them, especially if you are talking about the very largest clients. That can doom a consulting firm' (ExecCompConsultant: 2)

- COI/ExecRemConsultants: 'I think that there is also a matter of the ethics within each of the firms; clients or advisors. How educated is the Board about these issues? Some will say I don't want any conflict of interest at all' (ExecCompConsultant: 2)
- COI/ExecRemConsultants: 'Since arriving at this ABC firm, no one within the firm has put any pressure on me to change advice. Boutiques do not score one hundred on independence either. It could be argued that unless a Boutique has lots of clients it is difficult for them to walk away from an advisory relationship' (ExecRemConsultant: 14)
- COI/ExecRemConsultants: 'US: there are some inherent problems with that as well. If you are providing just remuneration advice...because the cost of services has become so high, again driven by regulation and there's so much work for the ExecRemConsultant to do and RemCos feel very exposed to doing anything without receiving formal advice, then I imagine for these Boutiques the individual client becomes very significant to them. You get the weight of money which must influence their views. Andersen Partners not well regarded by their fellow partners if they lost a client, consequently their judgement must have been altered as a result of that. And that must also apply to ExecRemConsultants' (NED: 3)
- COI/ExecRemConsultants: 'If you go the other way now, an independent, you have to be careful that you're not reliant on the fees you earned from your largest clients. There are other constituencies the ExecRemConsultant needs to look for. The institutional investor who is sitting on the other side of these arrangements. I think it unlikely that an ExecRemConsultant would advise something, even if that consultant felt, it was particularly advantageous to its client, if he felt that he would expose himself to some sort of difficulty with the end user. The institutional shareholder. So there's a degree of non-independence there,

and why I think the whole thing is normalised as a pretty vanilla series of RemCo tools (actually, RemCo tools which, sadly, seemed to be related to the size of the business, rather than the skills and complexity of the individual who is providing the direction to those businesses)' (NED: 3)

- COI/ExecRemConsultants: 'Big Four: There are conflicts of interest everywhere and they affect Boutiques as well. ExecRemConsultant being conflicted is a lot less concerning than investment bankers, strategy advisors or auditors being conflicted, and they face much more points of conflict. An ExecRemConsultant only takes between fifty to a few hundred thousand pounds a year. I've been told if we don't advise in a certain way we shall lose the audit or similar. So it does happen. If you're the kind of person who buckles that is a problem consultant. No matter what, you will not resolve it by trying to get to this independence point. Remember, Arthur Andersen advised the most properly-governed company in the world. Enron ticked all the boxes'

(ExecRemConsultant: 16)

- COI/ExecRemConsultants: 'Corporate culture and how you operate as a consultancy that is what is absolutely critical. We see our clients suffer from over-regulation. Regulating 'independence' or the actions of mere advisors, is of very little consequence. It will do virtually nothing to help executive reward become a healthier part of society. It is possible that a company where there is very little conflict on paper is in fact fundamentally rotten - I was about to pitch for some work once when I was told that the RemCo could be controlled by management, so really there was no point in pitching for the appointment'

(ExecRemConsultant: 16)

- COI/ExecRemConsultants: 'Encourage ExecRemConsultants to be business advisors. Don't regulate executive reward into a corner. business advice, understand how our Boards work and then some technical support. We are getting to the point where data is understood to be something that is interpreted. Boards tend to work through how you get proper business cases for why people are paid the way they are and thereby Boards can take appropriate decisions around whether to keep or not to keep and how to develop those in management they have responsibility for' (ExecRemConsultant: 16)
- COI/ExecRemConsultants: 'What's really interesting about the UK market is the relative absence of Boutiques. The Boutiques' market share is negligible. Boutiques that have been successful have clearly been on a path to sale. It's quite clear UK firms don't feel the need to seek advice from firms that are not part of larger firms. Contrast to the US, where the Boutiques' market share at CompCo level is probably at 60%. The market has clearly moved to a two tier model of management work and CompCo work, and Boutiques have got the largest share of the latter. This has not happened in the UK' (ExecRemConsultant: 17)
- COI/ExecRemConsultants: 'Australia has particular constraints around independence and we have to write letters of 'no undue influence' every time we are involved. Box-ticking exercise' (ExecRemConsultant: 17)
- Col/ExecRemConsultants: 'Big Four: I don't think that you can say there is a very, very direct conflict of interest that, you know, is sort of obvious, staring you in the face. The reality is, even if you've got a big executive remuneration account with a big FTSE 100 company, the amount of money you're getting from that is miniscule, compared to what you get from auditing them or providing tax advice. When I worked in Big Four I

was never, never, ever asked by audit or tax partner to make sure you look after my company. It does not work like that' (NED: 4)

- Col/ExecRemConsultants: 'The question that applies to all consultancies then is can you afford as a consultant to say to the client: "I'm not going to work for you anymore because we think you're doing the wrong thing on executive pay". Most firms would say: "if you're going to lose it, lose it". The executive compensation business is not so large that we can't afford to lose it. The smaller Boutiques may be in a different situation, oddly enough. You might say they have got more risk if they disagree/take a stand on a point of principle. In a way, it is an argument for conservatism. Making sure your client does not end up on the front pages for having a massively over-generous pay deal. Most leaders in executive remuneration are fairly independent-minded people, and most of the time they get sacked from an executive contract, which I have been (when I was an ExecRemConsultant), it's because they often say we want to move on and have some newer ideas. And nobody makes a big deal of it' (NED: 4)
- COI/ExecRemConsultants: 'Going to a RemCo meeting in France is like stepping back 15 years. It's just light years behind. The UK is a pretty sophisticated market. People are more conflicted by lawyers actually...clawback clauses written by a lawyer...advisors to the broader company...and they're drafting the clawback provision for the CEO. They're under the radar. The most conflicted party is ISS, who are trying to be consultants themselves; advising on target-setting, design and trying to get money out of consultancies, clients and shareholders. They're playing every side against each other, and they are a much more powerful player in the executive compensation space than the consultants. They are much more conflicted - and I'm sure I'm not the first to tell you that' (ExecRemConsultant: 17)

- COI/ExecRemConsultants: 'I think it's all a perception issue, and I don't believe for a moment that responsible ExecRemConsultants in our business would adjust the advice that they give solely to protect other existing business that they have with that company, or to gain an advantage of more business' (ExecCompConsultant: 4)
- COI/ExecRemConsultants: 'I just think the thought never crosses our mind. We have all the same tensions working with RemCos and in the process of doing that work also working with management as part of that process of doing that work. All the normal tensions of any Boutique firm doing no other business with the company would have. Trying to find consulting solutions that are satisfactory to all constituencies, both the RemCo and management. Those tensions and pressures are the natural nature of our work and I think we would feel them the same as any Boutique would in the course of our work' (ExecCompConsultant: 4)
- COI/ExecRemConsultants: 'There should be an explicit item on the RemCo agenda each year to look at the other work that people do. Not to stop them doing it but to just be aware and also to say to the HRD and CEO this is something that we need to think about in terms of independence. We're not trying to stop you using the firm, but we just want to be able to keep a running eye on it. As RemCo Chair, I don't know for example what else our Big Four RemCo advisors do at the company. I don't see evidence of it at the Board. They're not the auditors. They're not the tax advisors. Maybe that's one useful piece of information, but I don't think it's a public piece of information because, apart from anything else, there are some years where you do a technology implementation and you might pay a Big Four firm £5 million. Next year you may pay them absolutely nothing' (NED: 5)

- COI/ExecRemConsultants: 'Left to my own devices, I would consider a Boutique consultancy. You're likely to get a more objective, and potentially innovative approach to remuneration. I don't think any of my worries about what doesn't work well in the remuneration arena, and the use of ExecRemConsultants, is about conflict of interest' (NED: 6)
- USCOI/ExecRemConsultants: 'In the last couple of years, after an initial period of time when it looked like the ABC firms might be out of the business of advising CompCo's as ExecCompConsultants we've actually seen over the last couple of years a bit of an uptake...the same thing if you look to the Big Four post-Enron disaster and SOX. The Big Four pared back the business they were doing in other areas (ie., not audit) in a sizeable way because companies were not hiring them...for the non-audit activities where they were also the auditors. We experienced the same thing around executive compensation consulting, but just like the audit firms we've seen a bit of a resurgence in the business. If CompCos are satisfied in their judgement that the other work we do for the company is not going to impair our objectivity and independence then they feel less constrained about hiring us when we're advising the company on other matters' (ExecCompConsultant: 4)
- USCOI/ExecRemConsultants: 'We found when the SEC issued its six factor independence rules that's actually been helpful because now you've got some body of law, as it were, that guides CompCos in this area. Look at those six factors and so long as they feel like we have satisfied those six factors they are free to make the decisions they want to make with respect to who they hire' (ExecCompConsultant: 4)

- USCOI/ExecRemConsultants: 'It's adjusted, we've settled out, and there are, frankly, bigger more important issues around executive compensation and executive compensation governance that have taken centre stage, that are far more critical to people and to directors than the independence issue, which they just regard as a hygiene issue. I just think we've all adjusted to it and it's fine. You know, it's a new world' (ExecCompConsultant: 4)

**4.3.10 RITG2:SQ2, RITGST5 - 'What is your view on disclosure to shareholders of 'Other Services' Fees [Sub-coding: 'DSOtherServicesFees]?'**

- DSOtherServicesFees: 'UK institutional shareholders have never gone so far as to suggest that we follow the US protocol relating to fee disclosure for 'other services'. I think they would be content, at least at this stage, with more transparency and perhaps require some sort of shareholder approval of the appointed ExecRemConsultant, just in the same way as the auditor of a company' (ROO: 8)
- DSOtherServicesFees: 'Fee disclosure: 'Clamour for us to tell how much fees you earned both for RemCo consulting and 'other work' the firm might do. I thought more interesting issue (independence angle) was: what percentage of your total firm fees – your total practice fees originated by the fees charged to this client? If you're a Boutique it is possible that company X might account for 5%, 8%, 10% of your annual revenue. If you are on big ABC or Big Four, then the fees would be a tiny fraction. In some ways the people working for a big firm were far less compromised because the firm's result is not dependent hardly at all on the amount of fees you get from a particular client' (ExecRemConsultant: 18)

- DSOtherServicesFees: 'I think it's quite understandable why a company's shareholders, or governance people would want to see separate advice to the Board, and to see the level of fees and what they were in the total context. This move to splitting ExecCompConsultancies has been quite unfortunate. In the States, the Comp Committee will probably only deal with the Company Chair and CEO and maybe one other person directly. One percent figure chosen because someone thought that figure was a good idea. HR folks in RemCo? It was their glorious moment dealing with the Board, have more than half an hour to please the CEO. ExecCompConsultants would want to look sharp. Give their best shot. May only be asked on limited things. NEDs would not want to look foolish. CEO had an agenda. Meant that RemCo meetings were quite adversarial and quite heated. Quite often there'd been no engagement before the RemCo meeting. So here we are with a sensitive subject, nobody wants to look foolish, people with agendas that are financially quite close to them. They had all the elements to make these meetings quite heated and difficult. But you know, I used to think, well, they're good meetings because we actually get around and discuss these points and sometimes they made a good decision and sometimes not so good. Sometimes you wondered what they had actually decided. But they were good meetings, everybody had a go, everybody was an expert, everyone had been an executive, everybody had been paid, everybody had an opinion' (ExecRemConsultant: 18)

- DSOtherServicesFees: 'I personally think we landed in the right place in the UK where the NEDs pay for the advice they are receiving. That's a good thing because they can see whether they're getting enough advice, or not enough advice, and make an informed decision on that basis. I think that wider disclosure of fees is not the right answer. That will force down a more Boutique model because why should any firm like Big Four, or ABC firms, disclose their commercial arrangements with big clients for the entirety of that relationship? That's not a relevant input. We do disclose it to the RemCo, so it is aware of the level of fees that we get paid as a firm, to inform their decision on their annual review each year of whether we're still independent and whether they want to continue with our services' (ExecRemConsultant: 19)
- DSOtherServicesFees: 'People get wound around the ankle don't they, on fee disclosure. I can't see it makes a blind bit of difference, because what does it tell me? What am I going to do differently? If a corrupt CEO is in cahoots with a corrupt ExecRemConsultant, would it be easier to advise? Yes, but if people are determined to do that they're going to do it anyway, and I think that's not going to be the thing that finds them out because you can have such a variation of fees from year-to-year, depending on the challenges. Not all of what you're doing will be in the public domain. And I think one needs to be a bit careful that we do not get into the position where we're giving so much information publicly that you sort of might as well not be paying anyone to run the business' (CoyExecRemSpecialist: 11)
- DSOtherServicesFees: 'Introduce disclosure to shareholders of fees for 'other services' is not something I would favour. It would set hares running, potentially reduce provider choice in the marketplace and so would be a bad thing' (CoyExecRemSpecialist: 12)

- DSOtherServicesFees: 'The problem with disclosure is that disclosure is as useful as the competence of the readers who use it. And if nobody knows how to use it, it just adds to the regulatory and administrative burden on companies' (ExecRemConsultant: 16)
- DSOtherServicesFees: 'US-v-UK fee disclosure rules: I don't know that it would change if the disclosures became the same. Perhaps it's down to some extent to personality, you know. In the States, ExecRemConsultants who were powerful in some of those firms, who had the gumption when things started to look difficult, and spun off to set up successful practices. Maybe in the UK there weren't the same drivers to do that.' (ExecRemConsultant: 2)
- DSOtherServicesFees: 'I'm in favour of disclosure of all fees to shareholders; I mean by this fees for RemCo advice and also fees for 'other services' provided by the consultancy concerned' (CoyExecRemSpecialist: 8)
- DSOtherServicesFees: 'Big Four internal processes involve independent partner review every year and checks with RemCo Chair etc. If full fee disclosure came in it could have an impact on the UK market, but probably not as big as in the US, where the disclosure led to big firms spinning out their RemCo consulting practices as Boutiques. One reason why the impact in the US has been so great is that they have been grappling with the broader independence question of joint CEO-CoyChair roles. So adding a Boutique advisor to the RemCo would enable the Board to say we are fully independent on compensation and so take that issue off the table. In the UK, the broader independence of the Board is less in question' (ExecRemConsultant: 11)

- DSOtherServicesFees: 'Keen on public disclosure of RemCo advisory fees and also for fees charged in respect of 'other services'. Transparency/disclosure/independence go hand-in-hand. Let shareholders make their own judgement on independence, once they have full disclosure/transparency' (ExecRemConsultant: 14)
- DSOtherServicesFees: 'It might make no difference. But I think it would be interesting. Again, you normalise everything, don't you. All the ExecRemConsultants will expect to charge the same thing because it's within that' (NED: 3)
- USDSOtherServicesFees: 'I'm not sure that people actually pay any attention to that US fee disclosure. It occupies one or two sentences in a proxy that is hundreds of pages long, with fifty plus pages of that devoted to executive compensation. My own view is it gets virtually no attention from anybody. There's one US proxy advisor, Glass Lewis, that will note in their report if the ExecCompConsultant to the CompCo is also providing other services to the company, but their comment is a generic one and is not adjusted in any way depending upon the level of fees. It's the kind of comment people just toss out, and ISS have never, ever raised the issue of consultants' conflict of interest in any of the reports they've published. They view it as a non-issue' (ExecCompConsultant: 4)
- USDSOtherServicesFees: 'I think there was concern by the multi-service firms at the time that the disclosure was instituted that it would be bad for us in a commercial sense, but that really hasn't happened, and in fact what did happen after all that is that a new line of business almost emerged as result of that, and that didn't really exist before and that was having separate advisors to management and you only saw that on rare occasions prior to the new disclosure rules, and now there's a good bit of

that business going on where companies now end up engaging multi-advisors, one to the CompCo and one to management' (ExecCompConsultant: 4)

- USDSOtherServicesFees: 'We thought that disclosure rules would be bad commercially for our business, but it turned out I think in retrospect to have been a net add' (ExecCompConsultant: 4)
- USDSOtherServicesFees: 'The Big Four have largely exited the ExecCompConsulting business in terms of CompCo work anyway. Either way, as for some ABC firms - they made a strange conscious decision to exit themselves from this business. I think they've made a strategic mistake in that regard. We probably benefited from that in some way because once you made a conscious decision to exit a business like that in a professional services firm to regain entry into it is actually difficult to do as you have no people to be able to do that, and it's very tough to recruit people to come and start that business over again' (ExecCompConsultant: 4)
- DSOtherServicesFees: 'In US, Aon's and Mercer's executive compensation consulting businesses are much smaller than they were years ago, and WTW's executive compensation consulting business is larger today than it was' (ExecCompConsultant: 4)

- DSOtherServicesFees: 'It's entirely possible the UK will go the US way on the basis that if there is more disclosure and more scrutiny, then some of the big firms will say this is not worth the grief because all of the firms, the executive remuneration revenues are a very small part of the totality. They're not central to the business model of any of them. I can see it happening that there is separation. I can also see something like the Australian model coming, and I think certainly the Australian model is being pushed to the Government when it comes to binding votes'

(NED: 5)
- DSOtherServicesFees: 'I suppose the question is, what's the usefulness from a governance point of view, of disclosing fees? Is it the absolute amount and is it to question whether the fees are too high or too low for the services? Or is it more the ratio? I think the ratio is interesting'

(CoyExecRemSpecialist: 1)
- DSOtherServicesFees: 'Clarifying what that fee disclosure is, ie., RemCo fees, and with a wider fee disclosure, so other fees paid to the group on consulting matters or a certain employee remuneration matters. Could be helpful to see that perceived conflict, but I certainly knew some of the consultants are very against that because they feel it might drive them out of the market because the ExecRemConsultancy is pretty minute compared to the wider employee consulting and would they want that visibility on those fees, and does it create a competitive disadvantage with other consultants who are not providing that advice? I don't know'

(ROO: 4)

- DSOtherServicesFees: 'Yes, so at the moment you can't make a judgement on independence if you have only got the RemCo advice number. So it seems to be a little bit pointless, we say if they do other things for us. You have to sort of say what other stuff they do' (CoyExecRemSpecialist: 2)
- DSOtherServicesFees: 'I would say if I was the shareholder, I would almost say to a shareholder group, the fact that we do this work is the important fact to know. Not the fees. Because as you say, the likely fees for executive pay would be a fraction of the big-ticket stuff, which would be audit or M&A or these sorts of things. But having that tiny niche piece of business in the CEO's office is...it can be very influential. So I think the transparency of fees on the significant or material services provided by a consultant would be the more interesting thing for shareholders to know' (CoyExecRemSpecialist: 1)
- DSOtherServicesFees: 'Philosophically, it was hard to argue why that shouldn't also be the case with RemCo work (ie., fee disclosure for non-audit, plus audit for comparison). I think I'm probably leaning slightly towards disclosure, but I don't feel very strongly about it. I think I am probably in the middle of your continuum here' (ROO: 1)
- DSOtherServicesFees: 'Well, I'm not really in favour. I think it is creating an undue focus on one relatively small part of the business' (ROO: 1)
- DSOtherServicesFees: 'If the UK were to have similar disclosure requirements to the US, then perhaps you may start to see the market change. What about the remuneration practices of fund managers and the investment community? Perhaps they are not bothered because their

remuneration is structured in a similar fashion, and I believe that now that a lot of fund managers, well, fund industry, have overtaken executives in terms of having bigger packages' (ROO: 2)

- DSOtherServicesFees: 'It was taken out both times. I think it's disgraceful' (ExecRemConsultant: 4)
- DSOtherServicesFees: 'I do think it's a good idea. Do I think shareholders have a right to know first, how big my fee is for advising the RemCo; and second, whether I'm getting other work from that client? I absolutely do think they have a right to know that, because I think we live in a world of transparency and why wouldn't you give it to them? I mean what is the problem of providing that information? I would put it in the accounts. Work is advising the RemCo on the executive directors package. Most of the multi-line firms are actually reporting about a third of what their remuneration advisory fees actually are. I think if that was reported in the *Mail on Sunday*, I think Teresa May would go apoplectic, but I think quite rightly so. I think the fact that multi-line firms are not prepared to say sort of suggests that we're embarrassed by that' (ExecRemConsultant: 4)
- DSOtherServicesFees: 'I do believe there should be disclosure. If you are appointing an ExecRemConsultant to a RemCo who is working with the NEDs, who themselves paid fees, and they're independent of the organization, then if the consulting firm is doing other work with the organisation, I think it is correct and right that that should be disclosed. I'm not necessarily saying it is wrong they're doing other work, but I think the shareholders should know that, and make their own judgement about it. Shareholders should be able to ask the question: "Why is the same ExecRemConsultant doing non-independent work with an organisation?" You've got to look at the proportion of total income of the firms

themselves. You may question how objective that consultant's going to be? I don't believe the fee should be disclosed to shareholders. That's my personal view' (CoyExecRemSpecialist: 4)

- DSOtherServicesFees: 'I think I'm basically in favour of transparency, period. Why not?' (ExecRemConsultant: 6)
- DSOtherServicesFees: 'I think we will see it. We have experience with companies already where listed in a secondary regime and we have to disclose our total fees with the organisation' (ExecRemConsultant: 5)
- DSOtherServicesFees: 'I wouldn't have any issue with a broader disclosure of the overall fees paid to firms, although I have to say I'm not sure it's necessary' (ExecRemConsultant: 3)
- DSOtherServicesFees: 'I think we, as a global ABC firm, sometimes look at what happened in the US and wonder if we were a little hasty in ridding ourselves of the business that is now a Boutique. With the benefit of hindsight, there would've been ways to structure that relationship that might've seen us keep that business, but with appropriate checks and balances on how they advise companies and how they manage conflicts of interest' (ExecRemConsultant: 3)
- DSOtherServicesFees: 'Undoubtedly, yes. It would impact on things. Accountancy firms are just hugely sensitive to people knowing what they're doing and what they're charging for it. It would put them all at a great disadvantage, compared to their competitors, if they suddenly had to start making these kinds of disclosures. Whereas disclosing the remuneration fee is nothing because it is relatively low anyway' (City Lawyer: 3)

- DSOtherServicesFees: 'I suspect if that happened, if the disclosure came along, it wouldn't be that they would leave, I think, the accountancy firm, because the private equity side or the property side would not want these fees disclosed. I suspect what would happen is that the rest of the accountancy firm would say you're no longer able to advise RemCos. I suspect the individuals currently in those businesses would not spin off, they would be advising management (where there's less reputation at risk)' (NED: 1)
- DSOtherServicesFees: 'It would actually be interesting information. The focus is now more, not so much the fees for ExecRemConsultants, but on the overall package and the overall structures and overall levels of pay. It'll be interesting too, if you had disclosure in the UK and not just through RemCos, but the other fees the pay advisory firm is earning from the company. It could potentially throw up some questions, which would lead to further mitigation of conflicts or perceived conflicts. Like I say, that will be welcomed by some. It's not keeping me awake at night. I don't get queries from our clients saying the ExecRemConsultants are the problem, we need to know this. This information is vital, and then we want this in the UK in the same way as we've got it in the US. It is probably not at the top issues around executive pay at the moment' (ROO: 4)
- DSOtherServicesFees: 'Dual disclosure in UK: I think people will just make the disclosures and life will carry on, not necessarily as normal. There might be a few more Boutiques set up. Clearly, if there was a percentage rule, that would make it difficult in the UK and have to be relaxed' (ExecRemConsultant: 5)

- DSOtherServicesFees: 'I'm not sure you need to disclose to shareholders, actually. I think there's nothing helpful in doing that and it's up to the RemCo to decide whether or not they feel there is any conflict or anything else, and if there is they should act appropriately' (NED: 2)
- DSOtherServicesFees: 'I think those figures, and a few lines of explanation, would be valuable. The US attitude to conflicts is much more stringent than the UK one. That's not to say that the UK attitude is lax, it's just more pragmatic. In the US, accounting firms may have been persuaded it's not worth the trouble. This sort of work is probably not big enough to make it worth the potential trouble, if the conflict process is much more stringent. It does not appear to me there is any sort of push/confluence to make the regimes more similar to one another. I don't think there is a taste over here to make it harder, nor over there to make it easier' (City Lawyer: 4)
- DSOtherServicesFees: 'Well, auditors have got new EU rules coming in on disclosure requirements, and I personally believe in those, actually. I think auditors and consultants over a certain value should disclose their fees for definite [referring to auditors, as any Big Four firm, as opposed to whether they do the external audit for a particular firm]' (CoyExecRemSpecialist: 8)
- DSOtherServicesFees: 'I think more fee disclosure is better [ie., for 'other services']. The ABI put disclosure into their guidelines, way before legislation required it. Firms whose RemCo I advised disclosed my fees even before the legislation was introduced. When the legislation was actually introduced, it was cut down from all fees, just advice to the RemCo – this was the position taken by certain other firms of ExecRemConsultants, ie., they only disclosed the fees that were applicable to executive directors covered by the RemCo. I took this up

with the RCG and said that apart from Boutiques, everyone else was minimising the disclosed fees as much as possible. I thought that was a bit silly of them, given that the amounts are tiny anyway. I see no difficulty in full disclosure (ie., not just full disclosure of all fees charged by the ExecRemConsultants), not just in respect of executives covered by the RemCo, but also fees charged by the consulting firm for all other services. Additionally, I have no difficulty working with any of the structures of advisory relationships. What I mean by this is I'm content with a stipulation that if I advise the RemCo I can do no other work for the firm concerned, or, alternatively, I can do integrated work so long as it's pre-cleared with the RemCo Chair' (ExecRemConsultant: 12)

- DSOtherServicesFees: 'I don't think it would help because I think you can't draw enough conclusions from what was the nature of the advice and on what basis it was provided? So the ABC firm that are appointed ExecRemConsultants, they also provide us with surveys. I think it's a reference point. I'm not sure it really gives very helpful information unless the amounts were really hugely considerable. I think it assumes more organisation within companies than actually exists. We've got them over a barrel because they are providing us with pensions advice, so we'll put pressure on them to give us biased RemCo advice? If the nature of the individual is going to be independent, they would resign the appointment, and if the nature of the individual was not to be independent, they would probably not be independent, regardless. We do not have centralised accounting systems for fees, so we would be reliant on the ABC firm giving me the information. So you are relying on the firms themselves having very robust systems for pulling that global information and I'm not sure that they necessarily do. It depends how accurate it needs to be, doesn't it? If it's in the audited bit of the accounts, then somebody's got to be able to prove that it's true' (CoyExecRemSpecialist: 7)

- DSOtherServicesFees: ‘I don’t think it would make any difference. It would just be another disclosure. You could make the number look quite small for advising the RemCo. I guess you could share it between the two in a number of ways: unless you open separate job numbers. The reason that I actually think advising the top and the next level down is good, it keeps the two connected’ (NED: 4)
- DSOtherServicesFees: ‘Anyone who is providing advice on remuneration; all of their fees should be transparent. You should not be able to provide so-called independent advice if you’re not actually independent, and for our rules, this is pretty strict. We wouldn’t mind putting our fees in. We prefer not to put fees in because obviously you want to get the fees as high as you can. Why would you want to disclose fees, because it will be a race to the bottom and it’s not terribly good economics? That’s the reason. It’s not because of anything sinister. We ought to be looking at a three or four year rolling average. This is a mature marketplace. There’s a lot of competition and companies are being forced to cut fees to do an ordinary job. Over the last few years, fees have held steady at best’ (ExecRemConsultant: 15)
- DSOtherServicesFees: ‘I think absolutely there’s no reason why the RemCo, or indeed the Board, shouldn’t see what all the advisors are paid. Board, etcetera, pay a great deal of attention, for example to asset allocation differences, when it comes to pay, as long as you do the same as everyone else, you’re okay’ (ExecRemConsultant: 16)
- DSOtherServicesFees: ‘There are voices out there asking for additional disclosure, so it is something that might have to be revisited in the future’ (ROO: 8)

- DSOtherServicesFees: 'If statutory fee disclosure comes in, the market would probably fragment or some clients would decide that they weren't comfortable and they'd move to a multi-advisor model. Under the latter, the role of the ExecCompConsultant has been constrained materially and the work that we did for clients continues, it hasn't affected our fees. We are doing most of the design work and CompCo's ExecCompConsultant is reviewing it, rather than doing the design' (ExecRemConsultant: 17)
- DSOtherServicesFees: 'It's the theory that you get so much value from one part of the relationship you might desperately cling on and keep a relationship in another to retain the high value aspect? Well, actually, if it's an issue that no-one's addressing, well, maybe it's not the worst thing to happen, if it could actually result in better practice. I can see that being a good thing, but I don't know if we have examples in the UK of there being problems that have arisen. It's a big change. Is there not an argument that you can't really compare us to the States though, because their market is so much larger?' (ExecRemConsultant: 7)
- DSOtherServicesFees: 'I think it would be easy to say that it's just another piece of disclosure, a bit like how I was saying before - where the company's going well people don't mind whether you're spending lots on ExecRemConsultants or not. When a company is going wrong, they want to pick it to pieces. But actually, that's probably where you need the advice more than ever before. So whether it's disclosed or not, is just going to be, as long as it's disclosed in the right context. But the more you disclose, the more it can be misconstrued. I think it is the schemes in place that need more scrutiny than necessarily how much you have paid for it' (CoyExecRemSpecialist: 5)
- DSOtherServicesFees: 'I think it's all fluff. I think it's all totally irrelevant' (CoyExecRemSpecialist: 3)

- DSOtherServicesFees: 'It's an interesting question. You have to ask yourself why it is you're doing it. It's used as a proxy for independence and what would certainly happen in my estimation is that in the same way as the disclosure of the audit fees has gradually moved to the point where it used to be one-to-one. You could do one times the audit fee on other things. It's going down and down. I think you have to ask the same question about remuneration advice. It would favour, well, I don't think there are many Boutiques left now' (NED: 5)
- DSOtherServicesFees: 'How would you differentiate between ABC and Big Four? I think Big Four would have a lot more fees in the organisation. They're in a market of four. You can't choose your auditor as ExecRemConsultant, so you've got a choice of one in three if you're going down that route. I think the accounting firms are more sensitive about it than the ABC firms, and are much more sensitive about separation of services than they were 15, 20 years ago. The ABC firms have a greater independence threat because their client in the company is far more likely to be linked to the client they serve in both. Whereas, if you are doing some work on VAT, there's a reasonable chance the VAT Manager doesn't know the Head of Reward' (NED: 5)
- DSOtherServicesFees: 'It's always why are you asking this question? If it's about independence, it's not obvious to me that it sheds so much light. Australia has been doing it and it seems to have settled down once everybody got over the shock horror. I do think that things like the actuarial advice will be more separate from remuneration. Australia has more Boutiques. There are three or four Boutique businesses, and really in terms of big four, it's only E&Y who are quite the old Andersen practice' (NED: 5)

- DSOtherServicesFees: 'No issue in principle with the disclosure to shareholders of ExecRemConsultants' fees for other services. However, I have concerns about more and more disclosure. It's always open to shareholders to raise with the company the level of fees charged by ExecRemConsultants' provision of other services' (CoyExecRemSpecialist: 10)
- DSOtherServicesFees: 'I can totally understand why external regulators think that it is an effective way to control it. If you are in a position where you are using the same people for too many functions, do they really have the cross-discipline skills? Paying them so much money it would bias their view? RemCos should be looking for a proper independent view. Maybe we need some kind of penalty system: if people don't behave properly, then they need to disclose more, in order to encourage them to behave properly. Businesses should be proactive in the decisions they make, not driven by negative connotations about whether they're paying too much to given sets of advisors' (NED: 6)
- DSOtherServicesFees: 'Would fee disclosure have solved the Enron issue? Once everything goes outside the normal laws or conventions, then any kind of disclosure is not much sanction. People won't disclose honestly, won't obey the rules anyway. Great, for those obeying the rules, but not much regulatory use otherwise. Burden for the well-behaved and lack of a sanction for the miscreants' (NED: 6)
- DSOtherServicesFees: The problem with disclosure is that disclosure is as useful as the competence of the readers who use it. And if nobody knows how to use it, it just adds to the regulatory and administrative burden on companies' (ExecRemConsultant: 16)

**4.3.11. RITG3:SQ1 - 'What is your perspective on the current UK approach of a VCC adhered to by members of the RCG [Sub-coding: 'VCC']?'**

- VCC: 'I think a self-regulating body is fine' (ExecRemConsultant: 1)
- VCC: 'You'll remember this was a very defensive thing' (City Lawyer: 2)
- VCC: 'It just staves off regulation of this area' (City Lawyer: 2)
- VCC: 'So that would point to potential conflict of interest and points to potential monopoly. So that would suggest to me that the direction of travel is probably more towards codes of conduct than the other way' (CoyExecRemSpecialist: 1)
- VCC: 'I don't think self-regulation is necessarily hopeless, by any means' (ROO: 1)
- VCC: 'RCG's VCC: Fig leaf and total waste of space' (ExecRemConsultant: 2)
- VCC: 'Self-regulating? Self-serving I would say' (ExecRemConsultant: 2)
- VCC: 'I think it is successful. It clearly achieved its purpose back in 2009. At the time it looked as if we were going the way of America. We didn't. So I think it's achieved its purpose. It'll be a process of continuing improvement. I think it is relevant. It serves a function for advisors to RemCos, it's not aimed at internal advisers. How can a Head of Comp & Bens stand up to a CEO-type thing' (ExecRemConsultant: 4)

- VCC: 'If the industry needs a fig leaf, then carry on. But if it hadn't been invented, I don't think I would be calling for it' (ExecRemConsultant: 2)
- VCC: 'I actually think the RCG's VCC was a very good idea. I'm a fan of the VCC. I saw that as a step forward in the professionalisation of our industry when it was developed and came round, and that the consulting firms that did agree it did the right thing' (CoyExecRemSpecialist: 4)
- VCC: 'In relation to the particular SRO I worked for, the culture in the industry was somewhat neutral or even anti-regulation, with a club atmosphere still prevailing. On Big Bang, the Government required regulation of financial services activities, but did not want to spend money on establishing and maintaining the attendant regulatory architecture. The SROs had the advantage of being self-funding, plus could draw on a pool of highly-experienced industry experts to assist with disciplinary adjudications. Retired High Court Judges were used to Chair the latter. Strong degree of independence in adjudications. My SRO's system of investigations and disciplinary hearings was pretty similar to that adopted by the FSA subsequently' (ROO: 3)
- VCC: 'Regarding the particular SRO I worked for, overall, it had always been considered strange that instead of just one SRO there were five (then three) – with some acceptance even from the outset in 1986 that this was causing problems, with differing rulebook provisions/organisations claiming that some of their business activities fell under one rulebook and others under another' (ROO: 3)

- VCC: 'It quickly became accepted post-1986 that in an ideal world it would be best to have a single regulator (and for it not to be an SRO). It may be though that the City's only practicable route post-Big Bang was to transition to a single regulator via multiple SROs – it was 'starter regulation', as it were' (ROO: 3)
- VCC: 'Could see the sense in establishing a single regulator, rather than having several SROs. The prevailing mood emphasised not just that it made more sense to have only one regulator, but also that the self-regulatory approach itself was a bit amateur and flawed' (ROO: 3)
- VCC: 'Independence had not been an apparent problem in practice at the SRO I worked for. Fines had been far smaller and there was a pretty collegiate approach between regulator and regulated. The problem had been that the various scandals (eg., Maxwell/pensions mis-selling, etc.) showed self-regulation as not being fit for purpose' (ROO: 3)
- VCC: 'We could have tentacles spreading out all over. We could have a code with regulatory provisions for ExecRemConsultants, for all Board evaluators, for proxy advisors. There are all sorts of expansionist ideas. I think all these things are interrelated. And I think we have to question what the addition of this would achieve. It would certainly achieve a massive expansion in our empire' (ROO: 5)
- VCC: 'I think it's always much better than having it formalised and regulated. Otherwise, it lends itself either to bureaucracy and additional cost or a sense of it appears good but, actually, has it got sufficient teeth? So my sense is that having a VCC is quite acceptable. They could do a lot better by making themselves a bit more public in terms of what they're about and what they're trying to do and how they operate' (CoyExecRemSpecialist: 6)

- VCC: 'The thing is that if its very existence and the fact of people signing up voluntarily to the VCC is going to increase the confidence from RemCos in their ExecRemConsultants, then it can't be a bad thing' (CoyExecRemSpecialist: 6)
- VCC: 'Theresa May's view: "let's make Boards more accountable". It is at some point going to reach, not a crescendo, a launching point where Government may want to start regulating even more closely than currently they're doing. And I think it's important to anticipate that, to visualise the potential damage that could be caused when it hits the point where Government has to act' (CoyExecRemSpecialist: 6)
- VCC: 'I suppose the issue, as with any code, is what's happening on the ground. Are people following it, are individual ExecRemConsultants actually living and breathing by what the industry is dispelling? And we started this conversation with a small number of suggestions from me that not all the industry is following it' (ROO: 6)
- USVCC: 'Sounds like a very British approach to best practice. It would not work in the more rules driven US. Also US has far larger number of listed companies, with more fragmented/dispersed shareholdings and a large number of external consulting firms. Not a 'comply or explain' regime. More rules driven in the US. In the UK context, RCG could be a good defensive play. Potentially ward off further regulation/legislation' (ExecCompConsultant: 1)
- VCC: 'I think that sort of professional approach, ie., voluntary self-regulation, is important, and so proper, self-regulated practice and exposure to codes of practice is very relevant. It's a helpful defence and it focuses the mind on what should be done, if nothing else' (NED: 2)

- VCC: ‘A number of us on the legal side, who are quite involved in remuneration matters, thought we ought to be joining the RCG. And then it fairly quickly became apparent to us that it wasn't really for us. And I think that's right. It makes sense when you've got an identifiable set of service providers/identifiable area of service, to have a trade body and code of practice, call it what you will. I'm opposed to what I regard as self-appointed busybodies taking unilateral control over people's ability to carry out any particular form of activity or trade they want to (in the context of licence to practise). It makes sense to have your trade body have a sensible expression of things that one might appear obvious. It seems to me right that it is a voluntary code. It gives some degree of status for the people who have been engaged by the RemCo. Certainly not a bad thing and it looks like it's working’ (City Lawyer: 4)
- VCC: ‘I think the RCG's VCC is excellent, to be honest, including the content’ (ExecRemConsultant: 8)
- VCC: ‘The idea of a VCC is, of course, a very British one. You don't want to lay down rules. You want people to do the right thing. It's probably in our culture, the best that you can get. In the fairly recent past, it was considered not welcome, but acceptable, for the ExecRemConsultant to stand up and say things which the RemCo didn't like. Is it still like that? I don't know. I have my doubts’ (ExecRemConsultant: 13)

- VCC: ‘What must be in the ExecRemConsultant's mind all the time is: “If I'm awkward and difficult and don't do what they think I ought to do, or say what I ought to say, then I might lose this contract. And my bosses won't like that. My bonus will suffer and possibly other awkward consequences”. It takes strong independence of mind to be able to stand up against those pressures. Unless one has actually been present in those circumstances, it's very hard to make a judgement as to how effectively it works. In the fairly recent past, it did work quite well because they accepted it. There were enough fully independent members of RemCos to accept that you are giving your honest opinion. Whether that's still the case, I just don't know’ (ExecRemConsultant: 13)
- USVCC: ‘I guess having a VCC gives some guidance. Are they just words, or do people pay attention to them? My guess is it's a bit of a mixed bag. I'm not much of a fan if it went from voluntary to compulsory. Are we focusing too much on compliance issues, rather than the programmes that are being constructed? In the US, for independence, some CompCos are more concerned about compliance in place of broader issues. Board more interested in complying with requirements than about really overseeing how the company itself is running. Some of this may be the 'time issue' – executive compensation can be an add-on to a Board meeting. You have ten minutes to do a two hour slot. Part of it is that in the US there is not a limit to the number of Boards outside directors could serve on. The other piece is qualified Board members. Limited number have proper industry knowledge. Still a shortage of them’ (ExecCompConsultant: 2)
- USVCC: ‘Time availability to establish and run an RCG equivalent in US? Independent [ie., Boutique] firms do not have large administrative staff. CEO of a Boutique is not an administrator - but an active consultant, not just managing other consultants’ (ExecCompConsultant: 2)

- VCC: 'Has no teeth. Its purpose was to stop the Government introducing legislation. Is it time to wind up the RCG (leaving the VCC on the website)? Why did Gerrit Aaronson not join the RCG? Combination of competition and independence should result in best chance of high quality RemCo decision making' (ExecRemConsultant: 14)
- VCC: 'I think if the RCG was responding to pressure for legislation or regulation by being self-regulated, I think it would be helpful. So I think self-regulation is, by and large, better than the contrary case. I doubt it will change any people's behaviours. Any quality system will increase the load of documentation on RCG's member firms' (NED: 3)
- VCC: 'I don't think ExecRemConsultants are that important. It's an industry which has outgrown itself and based on results, needs to shrink because what is needed is fewer people giving better, more tailored advice to a smaller number of companies. There are far too many run-of-the-mill ordinary pay programmes out there that are doing actually nothing for anybody, apart from upsetting the general public who are quite sickened by the amount of money that some of the executives make' (ExecRemConsultant: 15)
- VCC: 'If you are any good, you're going to get hired, and if you get hired you're going to be successful. So this is a bit of a jungle' (ExecRemConsultant: 15)
- VCC: 'Close down the RCG. I don't think the existence of the RCG's VCC has made any difference to how I operate at any junction ever. The only thing I have ever heard at RCG meetings that rang any bells is 'touting' issues. I think you don't have to have an organisation of the kind the RCG has evolved into to self-police a VCC that makes perfect sense. The RCG provides air cover for an unfair marketplace. Look at the members of the

RCG Board. The bigger you are the more influence you have. These things have a way of continuing forever. I think it's not going to change' (ExecRemConsultant: 15)

- VCC: 'I think we've missed the elephant in the room: we have not addressed the fact that it is an unfair marketplace which favours the larger players and actually there are real conflicts. I think the idea was: "If you don't set up the RCG then we'll regulate your business. Self-regulate, or be regulated". It's just a rather silly test and a carry on that's unhelpful – from where I stand. I step into the room at RCG meetings and am asked: "How's your staff, how's business?" What value does that have to the solution which we're seeking on remuneration governance? No value at all, certainly none to the smaller players' (ExecRemConsultant: 15)
- VCC: 'I don't think anyone has really questioned the existence of the RCG's VCC. I think there have been concerns about the lack of self-policing, perhaps. Maybe the ExecRemConsultants should do more in terms of making sure that their members have not just signed up to the VCC, but they're actually following it. Don't really see at the moment that there is a role for the Government, unless some serious issues are identified. But we haven't any evidence. Some people question... they don't believe that there's anything credible as a deterrent, or a way to actually enforce the VCC. Perhaps it should be harder to join and expectation for members to prove that they are actually complying with the VCC' (ROO: 8)
- VCC: 'What you're trying to do with regulation is to encourage people to have that same sort of self-restraint. And actually, self-regulation can work - in some of the professions where there is still a, for want of a better word, slightly corny word, sort of honour in achieving sort of standards and maintaining them' (ROO: 1)

- VCC: 'I don't get the strong impression that people feel that ExecRemConsultants are behaving in some sort of maverick, cavalier way, in the way possibly people who are selling PPI, or split capital investment trusts or whatever were, and I think it's a very, very different market entirely. So I think some form of self-regulation is probably the right way to go for this sort of business really' (ROO: 1)
- VCC: 'I think the RCG's VCC code is about as effective as trying to hide the Taj Mahal by sticking a bowler hat on its roof (in the daytime). No NED or RemCo Chair has ever asked me about it. If there's going to be a VCC it needs some teeth behind it. It needs to be a live document that is referred to. This is our moral guidance, if you like. It's always been the ExecRemConsultant (not the RemCo Chair) pushing it forward. The VCC - we'll write the vision, values and beliefs, and then forget about implementing it, where we've not done it' (CoyExecRemSpecialist: 4)
- VCC: 'I suspect if one goes back to the period before the VCC, that was a situation in which there were occasional conflicts of interest, that there were individuals or companies who may occasionally have pushed the boundaries on what was appropriate in terms of soliciting work and that the way in which they solicited work affected the premises on which they did that. But I think these days, ExecRemConsultants are very mindful that they should be objective, that the recipient of their advice and the duties of ExecRemConsultants are to the RemCo Chair and must act accordingly' (ExecRemConsultant: 3)
- VCC: 'I remember the last time I looked at the VCC, I thought it was very, very, high level' (City Lawyer: 3)

- VCC: 'Maybe the existence of the VCC would be one reason why perhaps the position of ExecRemConsultants has improved over the last few years, but again it's not something we spend much time thinking about' (ROO: 4)
- VCC: 'Applied within organisations and are certainly applied within our organisation for interactions with our clients. And reinforce professional quality, care and independence within this particular profession because of the sensitivities around the subject matter. We have regular training sessions focusing on the VCC (and also when VCC updates appear). We reinforce it as part of our client care/quality programmes. I think it has a purpose. It has structure. I think it is delivered and enforced within our organisation. It's discussed and worked through with client organisations. We have our own professional code too' (ExecRemConsultant: 5)
- VCC: 'I think I would probably be a nought on your continuum of change, as I think it is working. I think for me the question is about size, I don't think the issue is relating to the VCC. What difference would a statutory code make. It doesn't seem to me (regarding licence to practise) that regulation on its own cures the issue (for example, pensions mis-selling)' (ExecRemConsultant: 5)
- VCC: 'I think that when you've got a significant amount of law and regulation and listing rules and code provisions, over the years the shift has been to put the issues of transparency and accountability much more into the law. The VCC's importance in this area has diminished because the law and regulation have taken over, and I think that's the direction of travel. I think the law has taken over with accountability and transparency, it's not taken over with regards to the ownership of bodies and ownership of the regulation, so the idea that there is a Government regulation there saying, well, this pay is right for this company's situation,

these are issues of governance of the complexity. I don't see this as an option. I think the Government needs a wider review of what might be considered in the distribution of wealth that attempts to deal with issues of inequality' (ROO: 5)

- VCC: 'I would make the sweeping generalisation that ExecRemConsultants differ in mindset from estate agents. So, I would say they're more likely to regulate themselves with rather more vigour than our friends in property. Should they be able to discipline people? Again, it's when something goes wrong and I come back to the pension fund analogy that whoever was Chairman of BHS's pension fund has a lot to answer for: the fact that apparently Sir Philip Green never met with her, or only met with her once. If that sort of situation were to happen in a RemCo, but I think it's, in a way, slightly less important. So we're putting a huge amount of potential burden on a company to monitor the pay of probably ten or fifteen thousand people in the country. And if every company has to have all sorts of regulations in place about that pay, that doesn't feel right. A VCC which is followed, in my view, would be enough. Until and unless RCG says, we need more teeth. If RemCo requirements started to spread to way more employees than it does then I might think differently. None of this will apply to private companies and individual entrepreneurs because they're not taking shareholder money' (CoyExecRemSpecialist: 5)
- VCC: 'We have a lot of annual training, we have a lot of independence training and compliance training but I wouldn't necessarily have been able to recite it and say: "Oh, that's the RCG's VCC", because we do a lot of compliance and it's all part of one and the same' (ExecRemConsultant: 7)

- VCC: 'I think people are broadly happy with what the RCG's VCC says and certainly when it was implemented the RCG had an issue. Most firms train on it and update their consultants on it. I think the real question is, are the vast majority of ExecRemConsultants actually living by it and is it making them think when they're advising their clients that this is actually the right thing to do? And maybe that's a bit patchy, but it's very difficult to police and it probably needs calling out behaviour more wholeheartedly to happen, so that actually the industry as a whole can improve. I see it would have changed behaviours if individual ExecRemConsultants had to sign up for it, rather than the organisations so maybe that's what's needed is actually an individual thing. And it depends, the RCG would have to take a view as to how widespread there are issues and how many of the ExecRemConsultants are actually following it and then if they didn't think enough were following it, then maybe the answer is that individual consultants sign up' (ROO: 6)
- VCC: 'I see absolutely no evidence of the RCG's VCC on a day-to-day basis, in our relationship with the RemCo and by that I mean it doesn't get referred to. There's not an annual meeting, which I'm pretty sure there's supposed to be. If I was concerned about the objectivity of advice, I might be pulling it out and using it to hit our ExecRemConsultant with. I feel that, likewise, our ExecRemConsultant does not feel concerned about us as an organisation and therefore, doesn't hit us with it. I think the fact that it is voluntary is probably a positive. If you believe that the advice overall being provided to UK companies is not sound or ethical or robust, then I think it should be made a compulsory code. At the moment, being voluntary enables a pragmatic balance'

(CoyExecRemSpecialist: 7)

- VCC: 'My view is that the RCG's VCC works well. It echoes protocols and practices that were already well embedded certainly in this organisation, even prior to the introduction of the VCC. Has been useful, but in terms of behaviour my sense is it's not had a big impact at all on this organisation. Behaviour was already good here. Very useful in allaying some of the myths around the way we operate as an industry. Some of my conversations with external observers (politicians and the media) it's been quite surprising to those individuals to understand exactly the way we operate is different from what they imagined previously. We're not the hired hand of the CEO. We're not paid a cut of what the CEO is paid, and other accounts and widespread myths that can be read about in the newspapers' (ExecRemConsultant: 10)
- VCC: 'ExecRemConsultants are business advisors, therefore, to have hard and fast regulation could impair that ability. I have problems that the actuarial profession is trying to get more and more of their stuff to be regulatory and the impression they give to companies is that, actually, they work for them, not their own employing company. Real tension is, I'm paying you but they're saying you have to do it this way even if it's detrimental to the company you're working for. So, I'm a believer, if you're a business consultant you should have a self-regulatory basis that says; "If you don't do this you could be censured", but to go further than that I always worry about it' (CoyExecRemSpecialist: 8)
- VCC: 'I don't think my behaviour as a professionally qualified person is actually dictated by regulation. I'm dictated by my personal ethics. There have been actuaries and accountants who have misbehaved and the regulatory body does not make much difference to that' (CoyExecRemSpecialist: 8)

- VCC: 'Before 2008, if the processes were right, the outcome must be right. To my mind, that's completely the wrong way round. We are an outcome society and outcome business (ie., "did you make the right decisions?"). All we have to do is vote against the RemCo Chairs a bit more, and the Chairs' behaviour will change'  
(CoyExecRemSpecialist: 8)
- VCC: 'If I was self-regulating, which is what I believe in the ExecRemConsultant profession, I'd probably want some sort of accreditation, a badge of honour for want of a better description: yes, this is how we've behaved, these are some of the key things, not on too prescriptive basis. If you've done the training then you get the badge (Like an accountant asks: "What Institute?" "Who did you train with?"). After five years you become an Associate. I think it would be helpful internally and good for the profession' (CoyExecRemSpecialist: 8)
- VCC: 'I think the fundamental difference between the UK and the US is that in the UK we have 'comply or explain'. In the US we have regulation. In the UK I think 'comply or explain' works well. I think the RCG's VCC can be seen in the context of the UKCGC, which is 'comply or explain'. I think a voluntary RCG's VCC is the right place on the perspective. I think the FCA/PRA to step in would be unnecessarily restrictive and American. RCG? From my perspective it is working well. Is it adhered to? I've no reason to think not. I'm pleased to have been a member and supporter and I think the RCG's VCC is useful. I've used it every year to have a private one-to-one meeting with the Chair of every RemCo I advise'  
(ExecRemConsultant: 12)

- VCC: 'The newspapers, the magazines would go to the ExecRemConsultants for their insights into this area, and then in 2008, 2009 they just vacated the space and there was a kind of vacuum in credibility' (ROO: 2)
- VCC: 'I think, actually strikes the right note in this and I think the VCC says you've got to decide who your client is and assuming it's the RemCo Chair, you've then got to have some protocol by which you can deal with conflicts of interest and then, when they arise, that you flag them up and deal with them' (ExecRemConsultant: 8)
- VCC: 'Big Four have insisted on everybody going through it and used to make sure all contributed to the debates and whatever. Took it pretty seriously. I suspect it's fallen off the agenda. I suspect in some cases it never made it on the agenda at all. I say 50% conformity would be good. Not that I think people are immoral, people just forget' (NED: 5)
- VCC: 'Is actually more important than it appears. At an industry group I heard a consultant say: "If you're pitching for work and you don't recommend a pay rise for the CEO, you don't get hired". My response to that was: "I suggest you give it up before you find yourself in serious trouble". Big Four firms do ethics training, know your client and anti money laundering. You've got to live some of this stuff, but actually the firm's reputation is so important because you have nothing else to sell. What good looks like, and what bad looks like' (NED: 5)
- VCC: 'US's eat what you kill approach puts additional pressures on ethical behaviours, doesn't it?' (CoyExecRemSpecialist: 9)

- VCC: 'It is eloquently and blandly written, in order to ensure no real consequences evolve from it that require any desperate intervention from anyone. Nobody... with voluntary codes... wants to get involved and say you didn't comply with it. It's designed to keep everyone happy, providing you're not a really bad apple. I suspect it isn't making a large difference to anything' (NED: 6)
- VCC: 'If you are part of a Big Four firm you're going to do things properly. You're going to lay out your engagement letters right because that's what those firms do, and they're good at that. There don't seem to be many mavericks out there... even if you are a Boutique and come with all the pedigree you've gained in previous employments... very aware of all the things you need to do professionally in order to be considered credible. There isn't much mileage in being a maverick ExecRemConsultant who's breaking the rules and not understanding conflicts. You just wouldn't survive long' (NED: 6)
- VCC: 'The reason we have a VCC instead of a professional body is that we don't have a set of exams. It's still a very small profession. FTSE 100 ExecRemConsultants... you'd probably only find five or seven individual consultant names repeat themselves over and over again. These six or seven employ the rest of the 200 in the consultancies to get the work done. A VCC is the right approach, without imposing too much administration and complexity into the system. We have NEDs who make sure we sit on the Board effectively and provide advice and input into how we behave, and behave ourselves. By and large I think that works. Shareholders need to call out if they think that some companies, or set of ExecRemConsultants, are detrimental. Shareholders, despite the fact they complain about executive pay, still voted overwhelmingly in support of it. They complain about ExecRemConsultants, but there are probably one or two advisors who perhaps are seen as not behaving brilliantly.'

They should call out a couple of these and tell NEDs: “if you turn up with these ExecRemConsultants, we assume you are up to something. Whereas if you turn up with other advisors, we'll assume you're getting good advice and you've made some sensible decisions, but we mightn't agree with them, and that's fine”. If we continue to allow the bad behaviour to perpetuate... from a shareholder perspective, and these people continue to get business, because management see them as management-friendly, that's not going to help' (ExecRemConsultant: 19)

- VCC: 'I've been in a business that had voluntary code for customers, so I saw how that voluntary code worked, and I can tell you it didn't work. I see a lot of people waving voluntary codes as evidence that they are behaving ethically and properly. The answer is it's more often than not, in my experience, used as a fig leaf, don't bother with it, would be my view' (CoyExecRemSpecialist: 11)
- VCC: 'Peter Montagnon was banging on for years about ExecRemConsultants needing a code of ethics... potential conflicts of interest... knowing which side their bread is buttered... to maximise pay for executives... bamboozle everybody else because the plans are so complex. So there was this clamour that we needed a code of ethics.... It was also the time of the Walker Review. Several of us ExecRemConsultants... devised a code of conduct and it took us about a year because we hoped it would go away. We saw quite a lot of benefit in it... yearly meeting between the RemCo Chair and ourselves, and attendance at RemCo meetings' (ExecRemConsultant: 18)

#### **4.3.12. RITG3:SQ2 - 'How is it working in practice [Sub-coding: 'RCG']?'**

- RCG: 'Your *Daily Mail* reader when they are reading an article about excessive executive pay is not going to be that interested whether a particular Big Four firm, for example, belongs to the RCG or not' (CoyExecRemSpecialist: 2)
- RCG: 'So, I can see in the future that we will be in a much more heavily regulated world. I suspect the RCG will end up morphing into something else. And I don't think, as we currently are, that it needs to, but I suspect it will have to evolve with how the world of executive compensation evolves' (CoyExecRemSpecialist: 2)
- RCG: 'Whilst the number of organisations is shrinking in terms of RCG membership, I haven't got the impression the number of people working in the sector is shrinking. If anything, I thought it'd be increasing' (ROO: 2)
- RCG: 'I don't see examples of where, for example, complaints to the RCG have been made and dealt with. I think there is an issue there around awareness and that might account for the lack of complaints. Or it may simply be that there is not enough information around to actively develop a complaint and make it stick. So, I think that there is a certain quietness around there' (ROO: 5)
- RCG: 'It's interesting I had to research it in order to find out about it. And when I looked at the membership, it was physicians healing themselves to some degree' (CoyExecRemSpecialist: 6)

- RCG: 'I'm between plus one and two on your continuum, up to five steps of change' (CoyExecRemSpecialist: 6)
- RCG: 'I think there probably needs to be a stronger tie to RemCoMembers. But then the RemCo is taking advice from an ExecRemConsultant. It would have to be pretty strong evidence of unethical conduct from its advisors because you'd just get rid of the ExecRemConsultant' (CoyExecRemSpecialist: 6)
- RCG: 'Set up to defend the position of the existing players. Everyone assumes people listen to ExecRemConsultants, which is not the case. You know, when you look at these programmes and people don't like them, shareholders think, oh, the bad guys are the ExecRemConsultants. The truth is that, quite a lot of the time the companies completely ignore the ExecRemConsultant's advice and have gone ahead anyway, and they've got themselves into trouble. So one of the ironies is that people give far more credit to the ExecRemConsultants than they deserve' (ExecRemConsultant: 15)
- RCG: 'Individuals don't belong to it. That is very much the type of concern I have heard' (ROO: 8)
- RCG: 'I personally feel it adds the total sum of zero to the world. I'd rather see it as a training manual for new consultants. Relationship with investors? How has it improved? When I started, the game was for ExecRemConsultants to help companies, basically, pull the wool over investors' eyes. Investors were neo-Marxist, whose job it was to make sure people didn't earn any money whilst being employed by anybody else. Tax planning, not very healthy game. But we were all learning to live with corporate governance. It's all got much, much better, but I think

it would be more valuable now to try to talk about business rather than lots and lots of rules. Too prescriptive much of this [referring to 'disclosure' etc.]' (ExecRemConsultant: 16)

- RCG: 'Don't see it as being a problem if I wanted to set up on my own without being an RCG member. No compelling reason why I should be a member' (ExecRemConsultant: 16)
- RCG: 'Is it now good enough? Probably not, because as we are talking about more generally, this is just the beginning of the thin end of the wedge, again, the public through the press and politicians using platforms keep raking things up' (CoyExecRemSpecialist: 3)
- RCG: 'The RCG as it is currently constituted, because I think it is a good thing, should work, fine, but I think it is suffering at the moment, I say suffering, the fact that there are really only two independent firms. They are underweight, and so don't carry as much clout as perhaps. Any quibbles, if you like, are mainly operational rather than in principle' (ExecRemConsultant: 1)
- RCG: 'At least leave it where it is. I suspect... down the line we will end up in a place where there is, we're sort of a three plus on your continuum of up to five steps of change' (CoyExecRemSpecialist: 2)
- RCG: 'I think there may well be something just in terms of almost beefing-up the perception of ExecRemConsultants externally that as a group they may feel that they need to take it a step further' (CoyExecRemSpecialist: 2)

- RCG: 'Well, you should be really going out there and demystifying the role of the ExecRemConsultant, unless you're worried that people realise, actually, ExecRemConsultants haven't any little influence whatsoever. Let's see what happens to the RCG. I mean, the idea that remuneration consultancy might suddenly become a licence to practise profession will be a hell of a leap if you think about it, with only 180 people or so in it' (ROO: 2)
- RCG: 'It's got two functions. Statement of best practice and to clarify. There are things we never did and no professional person would ever do type thing. The other element is that we've come across bad practice, you know, referring to; I think you're underpaid, touting' (ExecRemConsultant: 4)
- RCG: 'Corporate membership is only effective if the competition does something to the bad apples. So, if you sign up to it some time, and then you take affirmative action against people who break the rules. If you don't, what's the point? It should be an individual membership. It's a matter of their own integrity. You shouldn't be practising in the area unless you'd be willing to sign up to the VCC. It is a profession. A highly important one that impacts beyond the decisions made in the RemCo. It can fundamentally influence the behaviour of executives and they can make catastrophic decisions that can then damage society' (CoyExecRemSpecialist: 4)
- RCG: 'Doing away with RCG? I'm probably a four on your continuum of change (ie., retain RCG, but do more with it). They do it as adults. You get the moral compass. It should be a much more internal control, rather than external control. It needs to become like a culture change programme. It is either going to be, we are going to take control and regulate ourselves, and prove we are up to doing it, in a way that is

controllable, fair and equitable. Or we're going to be regulated externally, by other bodies, who don't understand what's going on, who will put in lots of rules, creating loads and loads of confusion, that don't make any sense, make the whole thing so complicated that it backfires and blows up in everyone's face' (CoyExecRemSpecialist: 4)

- RCG: 'I think a complacent attitude, and as I see it, it absolutely exists, is extremely dangerous, and actually if you're complacent and not listening to the vast majority of people out there, who don't live in this world, we're all in trouble. Simple as that' (CoyExecRemSpecialist: 4)
- RCG: 'My view would be the RCG is broadly in the place and level of activity and intervention that it should be. The RCG is a body there to promote and steward the VCC. It is not a training body, nor an industry body, and so it is not there to represent the broader interests of the industry. It has a very specific responsibility that relates to the VCC itself. I suspect therefore that there isn't a great deal more required in terms of training and development of the VCC. Tended to focus more recently in building more awareness amongst a wider group of external stakeholders; for example, private equity groups who might be considering taking companies to list' (ExecRemConsultant: 3)
- RCG: 'It would be very easy to suggest that RCG should downscale its activities... fee burden etc. But if RCG ceases to exist it can no longer steward the VCC and that it's important it's kept alive' (ExecRemConsultant: 3)
- RCG: 'I would sit at two on your continuum of change. I think it should do more publicity. I think training would be good and maybe really trying to open up its membership a bit more. There are all sorts of people out there who are involved in remuneration advice. I'd like to see it perform

a more useful function. In terms of formal regulation, that would just involve creating a massive infrastructure that would, of course, have to be independent because otherwise you are policing yourselves. It's not like ExecRemConsultants are auditors. There's objective data underlying it, but it's quite subjective. In what sense would anybody overstep the mark?' (City Lawyer: 3)

- RCG: 'It's a complete waste of time. It was a defensive mechanism by the ExecRemConsultants. They were concerned the FRC or someone else was going to mandate a code of practice, and maybe bring in regulation. Quick and dirty... hadn't covered training and accreditation and so on. Typical compromise document that says two times nothing. You will apply sensible professional standards to the work that you do and then you will disclose conflicts of interest etc. Standards within Big Four firms so much higher. VCC: absolute minimum standard of common sense that people should apply. So I say it's a waste of time – it's a waste of space in the sense it does not regulate or require anything more than a sensible person would do' (NED: 1)
- RCG: 'If you go to four on your continuum you need an ICAEW. Forty people... minimum qualification standards... someone to provide these... review them and test whether people abide by them... test that they're doing their annual updates. I don't think the RCG would fund forty people... the costs would be prohibitive... if necessary, would have to be under the CIPD or ICAEW... have to be convinced it would not damage their brand and reputation... and those two Institutes would in all likelihood not be interested in regulating it. If I was able to roll back the clock, I would go to minus one on your continuum and get rid of RCG. It will get blown up at some stage if there is a consultancy firm, or an event that happens, that demonstrates that they've not abided by common sense business ethics – at that stage it will be blown up and replaced' (NED: 1)

- RCG: 'I could see how the RCG could develop its powers. It's not something I see being essential. I think it's good to have the VCC. It's good that the RCG maintains it and that there are governance processes in place to do that. It needs to ensure that, as time goes by, it remains relevant. The remuneration debate hasn't gone away, if anything it's got more intense and the ExecRemConsultants, as an industry, need to ensure that they are alive to the potential criticism that could come from the Government and others on their role – and to ensure that ExecRemConsultants cannot be criticised for inaction. Potentially, there is scope for them to do more, but again it's not something I feel is crucial for the current event' (ROO: 4)
- RCG: 'I would say it is a lot better than nothing. So where are the mentors for ExecRemConsultants? Where are the people who are going to, at a professional level, kind of lead what is a decent practice? Should the RCG take over that responsibility in modular form from the CIPD and turn it into something that they could point to as something very specific that they're going to improve delivery? Giving some real leadership instead of just sitting there being a monitor' (ExecRemConsultant: 6)
- RCG: 'Young consultants: I think this is something where RCG ought to have a role. It's going beyond just monitoring, you monitor and then say: "Well, hang on a minute, this could be better, let's try to do something about it". Who would set the curriculum (referring to ethics), possibly CIPD?' (ExecRemConsultant: 6)
- RCG: 'I was very one on your continuum of change because I do think it's been helpful and I think it could build on that helpfulness to the industry by proactively starting to show the good practice, and engaging more with the wider range of members. The list of current organisations signed up is relatively short' (CoyExecRemSpecialist: 7)

- RCG: ‘When I read this question, I googled the RCG. I obviously had heard of them, but if I am completely honest I couldn't have really talked about them. But then when I read their website my initial reaction was, well, this just underpins everything I do, and this is a framework that I'm completely comfortable with and know quite well. I've just never really sat down and thought: “Oh, I'm going to read the basis of our terms of reference and what the VCC really is”, if I'm being honest’ (ExecRemConsultant: 7)
- RCG: ‘Somewhere between nought and one on your continuum of change. It's a very small body of people and I don't think it should be got rid of completely because you need something, and you'll just have to set up something else in its stead. I think keeping it as it is, seems like a very reasonable and appropriate measure. It doesn't seem like the kind of practice you need to have disciplinary actions in. It's not like you're signing off an audit report. You're always one step removed’ (ExecRemConsultant: 7)
- RCG: ‘CIPD-type approach: it changes to personal responsibility, rather than the firm responsibility, doesn't it? But it's a mindset and a structure. I've certainly heard the leaders say that we want people within our firms to follow the RCG's VCC and the behaviours, but it is up to individuals and if you see bad practice then I would want you to come and call it out to me and tell me what was happening with one of my team, so with all these things you need to weigh the balance of regulation versus the benefit and I suppose that would be one step that maybe the RCG should think about, whether the adherence to the VCC would improve if individuals signed up to it’ (ROO: 6)

- RCG: 'The RCG was in response to 2008 and some of the political and media pressure at the time. They have to be careful that they're not left behind again and get something worse. We are very keen that, actually, executive remuneration if it is regulated will be much worse and, actually, as companies' investors we need to demonstrate that the market-based solution can work and that investors and companies can work together and get the right outcomes for the company, for shareholders and for wider society. If we just sort of sat here saying: "It's not broken", then the Government are going to regulate and I suppose the danger I put on the table and, some would argue that I'm maybe going too far, is that if you're seen to be steady state the whole time it might not be good enough for the Government, for media, for others then they might force the RCG into something worse than actually if they were a bit more proactive and say: "We're going to improve the VCC by making individuals sign up to it" (ROO: 6)
- RCG: 'It looks like there is enough choice, and there's a scale of membership in the RCG, that ought to be sufficient for most of the quoted companies in the country to choose from. I think if it showed any signs of being anti-competitive it would probably bring down quite a lot of criticism on itself. It's a natural thing for people who are like-minded/in a similar occupation to group together. It's capable of abuse/working against the interest of the customer, and it's just a matter for everyone to be alert to that' (City Lawyer: 4)
- RCG: 'Before one got to the point of individual expulsion (rather than the member firm) you need a much more elaborate entry system, don't you? You need quite a substantial edifice around it (eg., independent adjudication). Lawyers: holding other's money – you must have a much higher level regulation of that sort of activity. ExecRemConsultants kind of live or die by the market' (City Lawyer: 4)

- RCG: 'The RCG was an initiative of four or five of the biggest consultancies. It wasn't people like us. It was created as a purely defensive measure to stop the Government bringing in any regulation, that was the idea of it. Manage the RCG's VCC and its defence. Companies with lots of FTSE 350 clients: larger subscriptions and underwrite the running costs too. So RCG exists for the benefit of the big consultancy firms who pay for it really. RCG: defence of the industry/bigger firms. The next stage of looking after the VCC is enforcing it, training services? I'm not in favour of that. I think a consulting firm is perfectly capable of doing that stuff' (ExecRemConsultant: 8)
- RCG: 'The survey RCG does every year is pretty good and I think it keeps people on their toes. ExecRemConsultants respond individually to the survey, and they're going to tell the truth. RCG does a good weekly press search through Headland PR consultancy' (ExecRemConsultant: 8)
- RCG: 'One sees the myth that is repeated in newspapers that ExecRemConsultants' benchmarking of long-term incentive ... levels push up pay. I raised this with the RCG, not one response save from the RCG Chairman. So this is not a forum for something which is very important, firms keep their own counsel' (ExecRemConsultant: 8)
- RCG: 'I assume that it has worked by the fact that the industry is allowed to go on regulating itself really and so I think you could say that means it is working' (ExecRemConsultant: 8)

- RCG: ‘Delivering quality to the client? Leave it as it is. Keeping the Government off the back of the industry? There's no doubt the remuneration consultancy industry is considered certainly satanic, really. A lot of people believe that, and a lot of journalists believe that too. Given all that, and Theresa May's promises and orientation, it's not impossible that some sort of discipline for this industry may come in. In which case there is another objective, which is how do you respond to that? And then it may be necessary to go to the right on your continuum of change. It's not going to be dealt with by going to the left of the continuum. A little bit more disciplined, certainly not regulation. Stop reading HPC Reports and get some real statistics on what's happening, and not doing it all on the back of a newspaper article’ (ExecRemConsultant: 8)
- RCG: ‘This debate does not seem to be going away and that if the Government starts to bring more legislation or regulations or something to it then’ (ExecRemConsultant: 8)
- RCG: ‘Probably somewhere around plus one on your continuum of change, given they have no real means of knowing how objective we are, I feel like they ought to be a bit closer to the company and monitoring it a bit more vigorously. There should be a formal, independent meeting with consultants annually. I think it should probably happen (with consultants bearing the cost). RemCo Chair says to me: “You have two jobs. You work for me and the RemCo, and you work for the company”. I think that there should be a bit more of: “Chairman, are you happy with that?”’ [ie., the ExecRemConsultants meeting with the RemCo Chair and asking about the Head of Reward] (CoyExecRemSpecialist: 7)

- RCG: 'I am probably a nought on your continuum of change. Moving into plus territory. You need to have the right framework in place externally. That's not something ExecRemConsultants can do on their own. The VCC is clear about what bad practices look like, and in that way we can recognise if there is malpractice or not' (ExecRemConsultant: 10)
- RCG: 'I am a nought on your continuum of change. I think where it is the RCG is satisfactory. I think to go back to say we don't need it? We can't. But I would be reluctant to see the FCA or PRA, or anyone else, come along and try to introduce a statutory form of regulation' (ExecRemConsultant: 12)
- RCG: 'On balance, it is helpful to have the RCG. Looking at matters from the perspective of a Big Four firm, there is annual training in ethics/independence/integrity/competition. They are all over this stuff. RCG is a bit of a so what. Bit unfair to say that RCG is merely a replication of what is done anyway. It improves training in professional standards for unregulated firms and regulated firms like the Big Four has helped improve training on how those standards are applied in the context of RemCo advice. RCG is beneficial for firms. Protects everyone. Most people do not sign up for something without looking at it seriously [referring to signatories to the RCG's VCC]. Improvements in standards largely driven by the market and the fact that RemCos have taken control. One will never know the counter-factual [ie., if RCG had never existed]. Problem with formal regulation. We are a tiny profession. Many of the advisory firms are professionally regulated and also individual consultants too are actuaries, accountants or lawyers etc. Bringing in regulation would be to misunderstand the role of ExecRemConsultants. It would be hugely disproportionate. ExecRemConsultants do not make any pay decisions' (ExecRemConsultant: 11)

- RCG: 'Big Four/ABC firms can cope with more regulation, perhaps Boutiques would struggle. Between nought and one on your continuum of change. Be careful about asking RCG to do more. It is not equipped to do more at the moment. Does quite a good job at getting feedback from the market. A RCG power to sanction individual consultants would be disproportionate to the problem at hand and would also perpetuate the myth about what ExecRemConsultants actually do' (ExecRemConsultant: 11)
- RCG: 'The RCG is a cartel, obviously' (ExecRemConsultant: 15)
- RCG: 'I think the RCG has evolved exactly how we thought it would. It has had very little impact, either on a firm's behaviour or on the perception of consultants. The VCC provisions were adhered to and well publicised before, and now they're kind of codified and externalised, but they haven't changed behaviour. At the margin, it might be useful as a training tool. I think it has not had an impact on the credibility of the profession externally. Did it play a role in avoiding external regulation? Probably not. It might have done at the margin. The VCC is very similar to the internal code of conduct we have and every other consultancy says the same. The impact is minimal, but marginally positive. Clients are pretty cynical and disinterested in it' (ExecRemConsultant: 17)
- RCG: 'It's not a profession and it could do with a bit of professionalisation, in my view. There could be some common industry training. One Big Four firm put together a training programme, not for training to be a consultant but to make sure people understood the RCG's VCC and what it was. It was given away to the rest of the industry so the little guys didn't have to produce their own' (NED: 5)

- RCG: 'It could only be the FRC that could do it, I think. Or the ICSA or something. I don't see why that would work either. It's not a critical mass for proper regulation. The important thing for RCG is to make sure people do actually learn about it. There is or there used to be a tension between certain of the lead ExecRemConsultants, so it is better for RCG not to take a line on particular matters. When it was set up that was essentially part of its remit. It was hard to see how you were going to arbitrate between the various ExecRemConsultants. It started as a defensive move that says: "If we don't do it, somebody is going to do it to us". The RCG Chair wanted to turn it into a platform for him to talk to the newspapers, and the rest of the industry said: "No, no, no". The views of organisations in this area are likely to be diverse. And therefore anything you say is pretty much going to upset someone' (NED: 5)
- RCG: 'Compliance/membership of RCG is a hygiene factor. Consulting firms had their own code of business conduct as well. It is good to have the RCG's VCC in existence. A wider pool of experience (nine years plus) consultants would be good, as there are not enough senior consultants at the moment' (CoyExecRemSpecialist: 10)
- RCG: 'I instinctively dislike legislation from Government. I'm not sure it addresses the wide boys. It just burdens everybody with tiresome stuff that usually is irrelevant. To the extent that people in the consultancy business thought it was necessary to have the VCC and that they stick to it and so forth that seems to me fine. I wouldn't fiddle with it' (CoyExecRemSpecialist: 9)

- RCG: 'In the UK, you've got big consulting firms whose reputations matter to them, so they're going to take more care, I suspect, than small firms which may have variable quality control. I'm not denigrating small firms, of course, but I think it is much easier or there is a much greater risk that small firms won't have controls and processes and all the rest of it. And, of course, how they remunerate their ExecRemConsultants is probably quite interesting' (CoyExecRemSpecialist: 9)
- RCG: 'Leave the RCG alone' (CoyExecRemSpecialist: 9)
- RCG: 'Accountants/lawyers/actuaries/tax advisors in charge of ExecConsultancies, they're all high-quality professionals who have their own professional standards too. The actuaries are probably pretty much up there, almost top of that list. Actuaries, certainly when I see them operating in an insurance environment, are incredibly independently-minded these days and they feel not only that they have the right to be but almost absolutely should be. I admire that wholeheartedly. If they transpose that into remuneration, I think that's absolutely right. The insurance broker part of one ABC firm in particular constantly struggles though to know who the client is. They show themselves not really to understand where conflicts of interest genuinely lie in their business. With the increasing warehousing of ExecRemConsultancy businesses within insurance broking companies... if they transform themselves properly into genuine financial services business, with all the disciplines that ought to come with that, then one can be hopeful that it will have the right effect to bring these businesses into the fold and will improve their view' (NED: 6)

- RCG: 'Nice to have, window dressing. Small marketplace, so an ExecRemConsultant's mistakes with one client are clearly communicated to everyone. This is what keeps the consultants to a high standard. Could have some value as a defensive mechanism to forestall potential regulation' (CoyExecRemSpecialist: 12)

***4.3.13. RITG4:SQ1 - 'What is your assessment of the ethical and professional standards of ExecRemConsultants to RemCos in an individual consultant context, as well as that of the employing firm [Sub-coding: 'E/PS' – ie., 'Ethical and Professional Standards']?'***

- E/PS: 'The reason people go to ExecRemConsultants is because they've built a reputation that they are experts in the field. It's the reliability and quality of the data. It's the knowledge of consultants of what affects investors and what investors are particularly concerned about. That's what you are paying for. You may only get there through experience. If you have got able people, who are right, having the ability to talk to investors. It's the quality of advice based on experience that people want to pay for. That's why they go to people who have established a reputation' (CoyExecRemSpecialist: 9)
- E/PS: 'The distinction between the traditional professions is an historic thing based on degrees at Oxford and Cambridge. I certainly would regard accountancy as a profession. People go into giving business advice, whether you call it a profession or vocation, I think it is irrelevant. What you want to measure are the outcomes, and how has somebody got to a particular point. So having an internal disciplinary 'think' is quite sensible. You want people to adhere to certain standards. For heaven's sake, don't turn it into something that's regulated by Government or Government setting up something, it's just the kiss of death' (CoyExecRemSpecialist: 9)

- E/PS: ‘The fundamental nettle is that half the people who are whinging don’t like the fact that bosses of very big companies are paid huge amounts of money, which is more than they’d earn in a lifetime. You know, they just don’t like it. Then if they think they haven’t earned it properly, or that things have failed on which they’d been measured, then they’re even crosser. Political/philosophical divide. You won’t change this divide unless shareholders across the world, which means principally in America, and to some extent in other European countries, agree that we should get back to a system where you don’t get an annual bonus, you get paid to do your job. That was your salary. And then exceptionally, you might get a reward for doing something particularly unusual or exciting, and until you change that mindset, I don’t think it will happen for a very long time, if ever. I don’t think you’ll shift from that and all these other things are complete rubbish’ (CoyExecRemSpecialist: 9)
- E/PS: ‘Virtually all senior ExecRemConsultants are professionally qualified, that’s how it should be. You pass exams, and your conduct is regulated. But I think in remuneration advice, it is working your way up, and getting experience and being able to work at Board level in big companies with institutions, and your value to your clients is how you will be able to do that’ (CoyExecRemSpecialist: 9)
- E/PS: ‘I haven’t had any situation over the years of any ExecRemConsultant, however, had the feeling they were maverick or under-qualified or inappropriately in the field. The poor service we’ve had is probably from someone who would have waltzed through any objective test of his competence. He didn’t really involve himself in the assignment. He delegated everything. He didn’t seem imaginative in terms of outcome. But he wasn’t lacking in professionalism as such. I’m pretty much at the other end of your continuum of professionalisation. You don’t

need more qualifications or profession development. Ethics? The weak spot might possibly be the slight insistence on them not being over influenced by executive management' (NED: 6)

- E/PS: 'It strikes me that most ExecRemConsultants did not go to university to be ExecRemConsultants, you know. Most of them are holding other professional qualifications. Professional behaviour, that's what I care about. No strong views on separate profession. Institute of Internal Audit have put a lot of work into their guidelines and behaviour, and how they ratchet up their performance. Internal auditor was probably an accountant, so not worrying too much about it until the global financial crisis. For a lot of people, it had become a specific function and people were relying on them in the sense that they could rely on other professions and they hadn't really lived up to the reinforcement that most professionals would expect to have flying around them' (NED: 6)
- E/PS: 'People who aren't conventionally part of a currently accepted profession are still judged on whether they behave professionally or not' (NED: 6)
- USE/PS: 'I can see some type of requirement for some kind of ethics training, as we've come to call it. It's interesting that at many of the professional service firms, leading ABC ones, there is a requirement, a compliance requirement, that every associate of the firm goes through the firm's ethics and compliance training, and that's a requirement at our firm. Part of the training deals with conflicts of interest, which certainly can arise in executive compensation consulting, but can arise in the conduct of any of our businesses. So some type of required ethics training for practitioners in our business wouldn't be a bad idea. I don't think I would be adverse to the notion' (ExecCompConsultant: 4)

- E/PS: 'On your continuum of professions, remuneration consultancy is probably closer to the middle. The role we have is technical in nature: Companies Act, shareholder guidelines, best practice and all that sort of stuff you need to keep on top of to ensure you're keeping your client informed. And then you give them an opinion: "Here is the scenario you are presenting us with... we think it runs all these risks... mitigate risk by talking to shareholders. If you're uncomfortable with a 75% vote in favour and the subsequent risks, which are X, Y, and Z". The RemCo then makes a commercial decision' (ExecRemConsultant: 19)
- E/PS: 'There have been occasions when we have resigned as ExecRemConsultants to RemCo because we feel the RemCo is not doing the right thing, and we are no longer advisors to those companies' (ExecRemConsultant: 19)
- E/PS: 'You take a decision to resign very seriously, because it's quite a statement and it's relatively unusual. A lot of what we do is a matter of opinion' (ExecRemConsultant: 19)
- E/PS: 'Our primary responsibility is to the company and to shareholders, not to ourselves. The decisions we try and help them make is to do the right thing by the company and shareholders. It can be very difficult to try and decide exactly what the shareholder voice is, but we do it based on experience. To this day we have not lost a vote and the majority of our clients are aware when they're running risks. As an example of a case where we have resigned: the RemCo proposed to virtually double the CEO's pay...a significant risk of not getting enough support to win and that would've been potentially damaging to us' (ExecRemConsultant: 19)

- E/PS: ‘In line with strategy consultants rather than accountants on your continuum, ExecRemConsultants are helping design a product for business strategy, not “true and fair” sign-off. Little reliance placed on ExecRemConsultants by shareholders, unlike external auditors’ (CoyExecRemSpecialist: 12)
- E/PS: ‘I’ve definitely seen situations where you have a strong-willed CEO pushing for higher salary or more long-term incentive grants, but in my experience, in those situations we’ve gone away, crunched the numbers, come back with a strong argument and, if that strong argument did not agree with what the CEO was saying, then we could present that to the RemCo and show what numbers our experience case studies show. I’ve never seen us not being able to deal with it. I’ve never seen anyone say: “Oh, I’ve got to give in because so-and-so wants it”’ (ExecRemConsultant: 7)
- E/PS: ‘The one regret I have about your work is that it wasn’t completed a year earlier, because I think it is needed to inform Theresa May and Chris Philp before they go off on a tangent and do something they end up regretting. I think it needs a more studied view. I think we’re going to end up with more regulation than we should have’ (ExecRemConsultant: 12)
- E/PS: ‘I would delete the word professional from your title. This isn’t a profession. I’m not sure that we as advisors in the remuneration space have actually earned the title of profession yet. I agree accountants, actuaries, tax consultants have crossed that bridge as professionals’ (ExecRemConsultant: 12)

- E/PS: ‘Highest standards in services/professional services is perhaps a hurdle too high. I see no problems with being a valued business advisor, but I wouldn’t pretend to be a professional, and the mere fact that a sole practitioner could advise the largest companies in the land, without any thought of practice backup and sign-off says it all really’ (ExecRemConsultant: 12)
- E/PS: ‘I agree ExecRemConsulting grew out of management consulting. There were of course those in other branches of consulting who thought that advising on remuneration was a touch disreputable. I agree no one is suggesting management consulting should be a licence to practise profession. ExecRemConsultancy is a business advisory service. A milder version of accreditation is okay, but if it’s subject to strict rules, I think it is too much. Some form of accreditation might be a way for RCG to move to a higher level? That seems perfectly reasonable. And one would imagine, therefore, that such a body would have to have the possibility of expelling members who didn’t really live up to its standards. I’m glad that RCG has the power to expel member organisations’ (ExecRemConsultant: 13)
- E/PS: ‘Ethical decisions must be very, very difficult to deal with, however independent’ (NED: 3)
- E/PS: ‘I think that RemCos have become much stronger than in the past...it is less likely to happen than it used to’ (NED: 3)
- EP/S: ‘Well, it’s becoming a profession in its own right, isn’t it, because there are people in it who have started, almost from university? If you look at the actuaries who are now in charge of compensation practices, the question is: “Are there successors to those actuaries?” And I suspect you’ll find there are not’ (NED: 4)

- EP/S: 'None of the heads of the big ExecRemConsulting practices at the moment are HR people. The remuneration profession, within HR, does tend to have a large number of people who are not CIPD members, and that's partly because a large number of people who go and get professional qualifications in the UK do it because they don't like numbers things. They prefer people things. Executive remuneration is not a numbers game. You need numeracy, but pay is only part of the numbers game in the sense of ability to pay. You need to be able to answer some broader questions. Is this right for the organisation? Actuarial numbers game, accounting numbers game. You don't ask how this impacts on people? And the way people behave. And pay is about behaviour' (NED: 4)
- EP/S: 'The conference call I'm about to take, I'm going to be asked questions around targets that company needs to set and its balancing achievability and saleability to shareholders. That's not a professional question, that's a question of how well do I know the investment community. The type of advice we are giving is so far from professional advice, it's almost relationship advice. I found the most exciting and fastest growing area of executive compensation is China, where it's less constrained. The Wild West, the Wild East. And every company is designing a long-term incentive plan from scratch and there's no market practice to follow. There's no guidelines to follow. People are doing what's right for the company. It's creative and exciting; like the good old days. It won't last forever, it's a wave...that's the fun place to be at the moment' (ExecRemConsultant: 17)
- EP/S: 'I actually think all the consultants I've known are highly ethical. Big firms: may be accountants, lawyers; I had an MBA, but everything I learned, I've learned here. The issue about accreditation is a massive step forward, and the RCG actually talked about that...we backed away

from it very rapidly. Most of the things we do require a decent understanding of the business, a good understanding of the legal background, and the accounting treatment of the designs that we use. I don't think it would add very much. It might generate another industry, but I don't think accreditation was that helpful. ExecRemConsultants are essentially business advisors. Quite narrow, but important field; you try to do your best for the business, from a business standpoint. I'm quite dubious about the benefits of specific accreditation in this area' (ExecRemConsultant: 18)

- EP/S: 'If you believe incentives change behaviour, you must be very careful with them. Think about how people work and behave rather than crunching numbers. The experience of people who start in executive compensation is that they spend time crunching numbers and somehow you don't necessarily link them to actually how people behave. You get this richness of people in the remuneration arena. I don't see...can I get an MBA in executive remuneration, and I'll just sit there and think...you've got all these bits on the edge of remuneration, which you need to understand and think. You've got to bear in mind the human dimension; what people are talking about at the top of this organisation. There can be examples of particular CEOs in specific companies where they're being brought in to effect transformation (often from the States). In these cases something completely different may be needed in terms of long-term incentives. You can't be an advisor on an assignment of that sort by simply saying these are the rules and this is the toolbox. At that point in time, the people they need to have advising them are not people who are saying: "This is what you get in the box". You have got to have

somebody who says: “We’ll back you all the way to have a unique decision”. With a good CoyChair and RemCo Chair go and talk to your key shareholders about what this business needs, and how we are going to get it. That’s a problem-solving case of vastly different sort of information that you need to pull together. It’s not like doing an actuarial calculation’ (NED: 4)

- E/PS: ‘There are examples where we have seen, as others would’ve seen, where professional standards have not been as high as they might’ve been, probably because, maybe influenced by conflicts or maybe influenced by strength of character of an individual in the client company over another, but it certainly varies’ (ExecRemConsultant: 1)
- E/PS: ‘I have never had any question about professional standards of the people I’ve worked with, those individuals. And I think that’s part of when you’re appointing them, you go through a tender process. You see people and you’re interviewing them for that role and you’re assessing your view of their professional competence at that point...your ExecRemConsultant, your lead advisor, is a very personal appointment’ (CoyExecRemSpecialist: 2)
- E/PS: ‘I suppose one of the benefits about ExecRemConsultants being Big Four or ABC is that, by their nature, they have a very strong professional standards culture because of their regulatory work. That is their bread and butter, and that forms the basis of the standards which actually roll out across the rest of the firm into different practice areas’ (CoyExecRemSpecialist: 2)

- E/PS: 'The ExecRemConsultancy profession, it is not really a recognised profession. It's quite niche. I don't know how regulated it is. There are probably many different forms and shapes of people who do this' (CoyExecRemSpecialist: 1)
- E/PS: 'It isn't really a profession. If you talk to business people, it rarely comes up as a recognised activity. It sits sometimes within HR. So I think that on a global level, remuneration has grown up as a necessary area in the corporate world, as we've had to figure out how to pay people, but it hasn't emanated from any field of study or any degree. So my first point is people who practise this type of work are of all shapes and sizes. So that would point to a usefulness, I think, of some standards and guidelines and what you've got to know at least these things, and there's probably a little bit of governance principles' (CoyExecRemSpecialist: 1)
- E/PS: 'So I think that at the senior level, one of the biggest risks is the ExecRemConsultant who becomes the enabler to the executive pay, rather than the advisor in the sense of an evaluator, almost. Is this appropriate?' (CoyExecRemSpecialist: 1)
- E/PS: 'I've never had any cause to doubt either the ethical or professional standards of the individual that I've worked with, and indeed of the firms. Certainly on the professional side. It's a bit harder to judge the ethical side, but again, I've never had any reason to bring this into question' (ROO: 1)
- E/PS: 'I think the biggest issues in remuneration, are not just in the question or quality of professional...question of professional standards of the ExecRemConsultants. I think there's some really big issues for firms and RemCos generally about addressing this sort of risk-reward type of debate...and the ExecRemConsultants have a real role to play in

that...it's a valid field, professional advice, and therefore the people who establish a reputation of providing quality professional advice deserve to succeed in that' (ROO: 1)

- E/PS: 'Very much at the business consultancy end of your continuum. It's a very different relationship than with, say, an auditor' (CoyExecRemSpecialist: 8)
- E/PS: 'Probably somewhere between accountants and the end of the continuum at the management consultants. They actually bring to bear both the consultancy soft side and some of the harder advice around accounting standards and how you account for share-based payments and the like. ExecRemConsultants pull in quite a few different strands into the advice they give' (City Lawyer: 1)
- E/PS: 'Almost as professional as the accounting, actuarial, tax, obviously, technically quite different...they have proved they have a degree of professional standing' (ExecRemConsultant: 2)
- E/PS: 'Some ExecRemConsultants have come out of HR, and they've got CIPD membership. I'm not sure how recently recruited people start out from university and kind of move up the ranks, rather than what seems to have happened 15 years ago. People would move into it after they'd been doing something else for ten years in another discipline, such as law, actuarial science, or HR' (ROO: 2)
- E/PS: 'Across the industry as a whole, the ethical and professional standards are at a very high level. Both corporate and advisory fields; they do have a fairly strong moral compass. They realise it is an area in which decisions are often contentious, in which there are competing

views, conflicts of interest, and they are comfortable in dealing with that space and those types of issues' (ExecRemConsultant: 3)

- E/PS: 'I've never perceived any issues. I think that a lot of the criticism that was levelled at the profession was not because consultants were behaving unethically or with low professional standards. I think it would be good to have an accreditation, but not to take it as far as disciplinary sanctions' (City Lawyer: 3)
- E/PS: 'If you are consulting around something that has huge public interest vested in it, it's probably not appropriate to be such a free agent as you would be if you were McKinsey consultant, for example. But I don't think it goes as far as being a lawyer or doctor' (City Lawyer: 3)
- E/PS: 'The ExecRemConsultant is there as an independent advisor to facilitate a discussion. They're a facilitator. They are to help put the right information, give the market perspective, help the RemCo kick the tyres round on things. And so it isn't like being a doctor' (City Lawyer: 3)
- E/PS: 'The professionalism standards are relatively high. Individual ExecRemConsultants, plus firms as a whole are professional. They're on top of their game, they know the material, they understand the issues, they take time to understand shareholder/ investor perspectives, and from that we can see, in general, communicate back to RemCos. Their technical expertise is good, they understand remuneration, obviously, but they also understand the bigger issues around incentivisation to achieve strategy' (ROO: 4)
- E/PS: 'I put them more or less on the business advice rather than the vocational side of your continuum' (ROO: 4)

- E/PS: 'Professional bit seems to have come through for the leading players. Good, well, they presumably keep an eye on the behaviour of their subordinates, which I think is probably a good thing, but it doesn't alter the fact that they're human beings as well. There's a sort of professional, ethical element to this and I don't see quite how you police that' (ExecRemConsultant: 6)
- E/PS: 'Decade or so of virtually zero real wages growth for the vast majority of the population...and one group who have been immune from this are top executives, and that has led to untold social annoyance and the political consequences we're beginning to see all around the US and Europe. One part of the answer must be that the ExecRemConsultants, and their clients, used to say: "Well, we must be paying at upper-quartile levels of the market in order to attract the best talent and be able to keep them". It's a race to the top with no ceiling to it...maybe one of the reasons why we've got this huge disparity that's causing so much social unrest' (ExecRemConsultant: 6)
- E/PS: 'Ethics: it's such a difficult thing to measure, isn't it, where a person is. I think most of us know where the boundary comes between doing something that is definitely wrong and something that is definitely right. The grey area is quite small. Maximising the executive remuneration package may well cause such disruption further down the tree in the organisation, that the middle managers or the workforce as a whole could get fed up, lose their own motivation, and at the macro level it can turn into what we're seeing politically all over the place'  
(ExecRemConsultant: 6)

- E/PS: 'I'm not saying the poor old ExecRemConsultants are the only ones responsible for that, but as a matter of fact, I think they have contributed by creating such a massive disparity between top pay and other people's pay, and was that a result of ethical misbehaviour, or was it a matter of bad judgement? I think there may have been a lack of ethical dimension to it in that the consultant might think that his bread was buttered by making sure the executives benefitting from the programme would make a lot of money' (ExecRemConsultant: 6)
- E/PS: 'I think ExecRemConsultants lie to the right end of the scale on your continuum, towards the management consultants' side - because obviously the management consultants use analytical techniques. They've got their methodologies for analysing a situation and then suggesting remedies' (ExecRemConsultant: 6)
- E/PS: 'I regard myself as a professional person. I advise as a management consultant on executive remuneration, or because I am professionally qualified? Either, would be the answer. The concept of a profession is fast changing in this digitised age. The concept of a career is perhaps very different from what it was when I started training and education' (ExecRemConsultant: 5)
- E/PS: 'New professions are where I would put them on your continuum, somewhere between new professions and the management consultants' (CoyExecRemSpecialist: 6)
- E/PS: 'I don't think it would be right for ExecRemConsultants to be deemed, if you like, like the medical profession...but certainly there is something between the Bain/McKinsey end of the spectrum and the chartered accountants and independent actuaries, where I think there needs to be some accountability. So I'm probably between

Bain/McKinsey and the accounting/actuarial professions on your continuum' (CoyExecRemSpecialist: 6)

- E/PS: 'They're somewhere between Bain and the new professions on your continuum, aren't they? They're certainly not God. And most ExecRemConsultants have some sort of professional qualification anyway. I think the ones I've come across did. Like the case of those who do not have professional qualifications who set up an ExecRemConsultancy Boutique, which I previously could if I wanted to and nobody would stop me tomorrow. I thought I ought to have some sort of standard. I'm not a lawyer, nor an accountant. I don't think I should be able to go and open up my shop and just say I can do this. But I wouldn't want it to have to tie all the very expert people at having to do yet more exams unless they wanted to, of course, but I think there ought to be a minimum standard' (CoyExecRemSpecialist: 5)
- E/PS: 'My perception is that in a sense it's neither ethical nor unethical; it's amoral, in a sense, because the advice given isn't about whether the firm should pay more or less: it's more about what the firm is trying to get at. I haven't picked up evidence myself that there is particular unethical or ethical behaviour. I haven't seen ExecRemConsultants advocating a lower level of remuneration more aligned with public perceptions. I think it's more: "What is the market practice?"' (ROO: 7)
- E/PS: 'I would probably say it's standards that should really be set...maybe it's my professional upbringing through a Big Four, where you get that really instilled in you through your qualifications, and a lot of the compliance work you need to go through, but I feel it's just a value instilled with the company that you work through. If that's not being put to you by your company, then management's doing something wrong in the first place' (ExecRemConsultant: 7)

- E/PS: ‘Terms of business, codes of business, protocols on how you deal with clients: if you are not aligned with that, quite frankly, you’re not going to keep your job for that long because you should be in line with the terms of your own business. If you haven’t got terms of business agreed with the client, you’re not going to go anywhere’ (ExecRemConsultant: 7)
- E/PS: ‘There’s so much disclosure and transparency now that it would be very, very hard to do something unethical. I’m sure it must happen. But everything is so much at the mercy of shareholders...I feel like you’re protected somewhat in that respect’ (ExecRemConsultant: 7)
- E/PS: ‘It is very clear to see the different quality of ExecRemConsultants and it surprised me the differing level of quality. And there are some I feel do a great job, are actually thinking about the issue holistically, both what a shareholder is going to think and trying to advise the company in the right path to get not least resistance, but understand how it works and what shareholders are likely to object to, and actually, what wider society is likely to object to. And there are those who will still have a mindset about how can we push it for management and get the best outcome. I was having lunch with an ExecRemConsultant and he said to me they put clawback and malus into a client company’s schemes, and he said: “I can’t believe they did it without looking for compensation for putting these extra restrictions into their schemes”. That just shows it’s not a blanket quality of good advice at the moment’ (ROO: 6)
- E/PS: ‘So genuinely, I think advice has improved and the independence has improved since the financial crisis and the instigation of the RCG’s VCC code, but I think there’s still some bad practice and some wrong mindset in the industry’ (ROO: 6)

- E/PS: 'I've talked about the quality and does it raise more issues in my mind in that group of people, than maybe, but it's a bit anecdotal and I'm careful not to cast aspersions on the whole group. But I suppose they have a different approach and they have a slightly different view of their reputation. I know from speaking to the Big Four that they are losing clients because they're conflicted out. And I think it shows sometimes in the independence of the Big Four, that maybe doesn't always come through in the ABCs. If there was much more consolidation, I think there'd be an issue. But I don't see it as an issue at the moment. I certainly haven't heard from RemCos that they're struggling to find independent people or the right ExecRemConsultant' (ROO: 6)
- E/PS: 'Agreed, more at the right-hand side of your continuum I struggle to see them moving away from that [ie., strategy consultants]. They are not there to make decisions for RemCos, they are there to advise RemCos. RemCos make the decisions and shareholders need to hold them to account. If the RemCo doesn't think it is getting good advice, then they have the option of changing ExecRemConsultants, so I think that we need to be careful not to over-regulate, over-complicate, and put the burden, responsibility on ExecRemConsultants. They are there to provide independent advice. It doesn't mean that RemCos will follow that advice. We're getting to a rather sticky position: what would happen if RemCos ignored the advice of ExecRemConsultants - as they do all the time at the moment?' (ROO: 6)
- E/PS: 'I'm trying to say professional standards are important and that you need to get the individual ExecRemConsultants to think about how they are advising, but I think you are putting them on too much of a pedestal for something which is not their responsibility. It seems that the role of directors is trying to be pushed onto different actors, be it shareholders, ExecRemConsultants, and actually we shouldn't be doing that' (ROO: 6)

- USE/PS: 'Our US Boutique's reputation was built on imbuing high ethical and professional standards...energetic, good people...smart, honest, and hard-working... 'annual declaration', insider and client confidences aspects...staff need to do the right thing, be straight-shooters' (ExecCompConsultant: 1)
- USE/PS: 'Broader US executive compensation population: executive compensation professional practices are all over the map...some ExecCompConsultants have very high standards, whereas others consult via data dump/newspaper quotes/being real blow-hards. On the whole continuum...I like to think ExecCompConsultants are like McKinsey on your continuum (ie., advising top management, creating strategy and being multi-disciplinary)' (ExecCompConsultant: 1)
- E/PS: 'I'm professionally qualified, but normally try to hide it rather than promote it. It may be regarding ExecRemConsultants it is a safety net. It's in their mind, it defines them, and it's a valid public recognition of what they have achieved and done and studied hard to get, type of stuff. I say I'm a businessman, not mentioning my professional qualification. But if I were in a professional firm, I might be worried that some of my potential clients would be worried if I actually had any idea of what professional meant unless I told them I was an accountant or lawyer' (NED: 2)
- E/PS: 'I think they are between the 'new professions' and 'strategy consultants' on your continuum. I think perhaps they are closer to the 'business advisors'. I have never had to query the ethical or professional standards of ExecRemConsultants to RemCos. Nor have I felt that there was a question mark over those. They've all struck me as people who are genuinely interested in what they do - not doing it just for the fee

income. They have a real interest in the philosophy of what they're doing. There's a lot that goes way beyond process [ie., beyond market information and benchmarking]' (City Lawyer: 4)

- E/PS: 'Very strong ethics...client service satisfaction...professionally right...if you haven't got the expertise you say so or you consult somebody internally who does...consultants in my experience are highly ethical and professional, they're not taking punts and they're not trying to say nice things to the client in order to secure the work or next bit of work. But I can only say that's in the firms for which I've worked' (ExecRemConsultant: 8)
- E/PS: 'Maybe it's the weird end of consulting or professional consulting...it's the oddball end of financial consulting' (ExecRemConsultant: 2)
- E/PS: 'Principal agent theory: Seems to have become a dominant way that ExecRemConsultants conceptualise executive remuneration. So it is more rational to focus on rewarding outcomes than monitoring behaviours. And it is more rational to link pay and performance...well, link pay to performance, and then through various mechanisms, are short, medium, and long-term incentive plans. However, you then end up with things becoming rather more complex to the individual that this package is supposed to be incentivising. And after a while, I'm not quite sure whether the investors themselves understand the package, and don't or are unable to calculate how much it is worth' (ROO: 2)
- E/PS: 'They are professionals and they are doing their best that I think they can do. It's just the system they are in and how they're responding to it that is the problem. I don't necessarily have a problem with the word "professional," and I don't necessarily have a problem with standards, it's

just that standards always smacks to me of, like, objective measures and things like that, which we are kind of moving away from. Professional bodies are moving towards, having more principles-based approach, rather than one based on a body of knowledge' (ROO: 2)

- E/PS: 'Thinking of ExecRemConsultants, there are two types of people in this game. There are people who are there for the intellectual challenge of it. What turns them on is the technical complexity and trying to figure out an answer. There is another group of people who are ExecRemConsultants because they're on a power trip. It is filling an egotistical need. And they are the most likely types of consultants to be more complicit in things like ratcheting pay, rather than take a moral stance on it, because they see themselves as being in the pocket of the CEO. The ego massage of that CEO' (CoyExecRemSpecialist: 4)
- E/PS: 'The more people are disconnected from the reality of the business, the more likely they are to make bad decisions and to give bad advice' (CoyExecRemSpecialist: 4)
- E/PS: 'The thing that is very important here is the leadership of the firm because that really does set the tone of my business. Partners and senior practitioners' attitude...critical to the propagation of that ethical code and compass throughout the wider business. But I've also seen businesses which have been rather more short-term financially led ahead of considerations of what was the right thing to do' (ExecRemConsultant: 3)
- E/PS: 'I suspect all of the ABCs plus Big Four, each of them, will have their own code of conduct or their set of ethical standards or guide to professional practice. They would probably contend that this governs them as strongly, if not more strongly, than the RCG's VCC. What we require from our ExecRemConsultants goes beyond the VCC. And I've

heard that view from a couple of the Big Four as well' (ExecRemConsultant: 3)

- E/PS: 'The professional standards concerned haven't been thrown into any doubt so far as I'm concerned. More about conflict issues.' (ROO: 8)
- E/PS: 'I have very high professional and ethical standards, albeit that only half our people are professional and the professions they belong to are varied, consciously, as I think it's a craft that requires multiple professional skills. The balance of people at the firm is always a mix of CFAs, accountants, and the odd lawyer and tax professional and actuary. The model of hiring other professions mixed together works well. Ethical training that comes from being part of a broader firm is strong. I'm nervous about appropriate technical experience outside our firm in the UK. Where is a disaster likely to happen? Beijing or KL, where someone who isn't technically competent to answer a question, answers it badly, and that's what keeps me awake at night. Specific accreditation? Not at all. It's a tiny profession' (ExecRemConsultant: 17)
- E/PS: 'I think it's the ethics and culture that underpins that's important, rather than the specifics. If you go back to the US, one of the things that got the accountancy profession in a huge amount of difficulty was they agreed lots of rules and then said these are the rules, you can't interpret them. And out of that came Enron. In the UK, there are fundamental principles: even if it's lawful, don't apply it if it looks wrong. And I think that works pretty well. We had a shareholder appointed pay review, and I could not tell you if the people reviewing were good, bad, or indifferent. And I didn't know what their experience was. Again, against virtually everything I have said, I wonder if some sort of voluntary accreditation would be useful' (CoyExecRemSpecialist: 8)

- E/PS: 'ExecRemConsultants actually work with you to design something and then say it's okay. So it's a slightly different relationship to auditors' (CoyExecRemSpecialist: 8)
- E/PS: 'Professional and ethical standards are in the RCG's VCC. It would be highly anomalous of me to say I am zero or three on your RITG3 continuum, and then to be in a different place on RITG4. The former being RCG changes and the latter moving to accreditation, complete licence to practise, etcetera. That being said, it is a case for most other professions that there is an examination' (ExecRemConsultant: 12)
- E/PS: 'Nowadays, there are clearly people who do this profession and nothing else. In a perfect world...other activities were possible, so that you got a wider view. Advising on remuneration, in my very strong view, is not a wholly technical specialist matter. You have to understand at some level how the business works. Unless you understand the key drivers of the business, then developing remuneration practices becomes a purely technical exercise in my opinion, not worth a great deal' (ExecRemConsultant: 13)
- E/PS: 'In ABC or Big Four the need to have that revenue stream is so critical, there's a pressure to get this billing up as high you can, and as fast as you can, and that's the problem. You don't have enough time to go back and work the information' (ExecCompConsultant: 2)
- E/PS: 'The best guarantee of competence is competition (via reputation). ExecRemConsultants should be selected on reputation. I'm agnostic about accreditation. Licence to practise likely to be bureaucratic and not properly effective. Ethical training? I consider that most consultants know what can and can't be done in particular circumstances; they exercise discretion appropriately. There is tension between executive

management and RemCos. Listed companies may be run more in favour of management than private equity ones. It could be argued that this is the premium for the responsibility of running a public company. Despite codes of practice, the governance of listed companies is not just as it should be' (ExecRemConsultant: 14)

- E/PS: 'The provision of this advice is very similar to that of a lawyer. You have a firm that provides the environment for the ExecRemConsultant to give the advice. But it really depends on the individual consultant as to whether the advice is determined in a way that is appropriate or whether you don't find it. I don't know how the firms deal with these sorts of matters, although I'm sure they are extremely ethical in the provision of their services' (NED: 3)
- E/PS: 'After that process I would say, this is the whole thing. After that, I don't see why you need to have a cartel, an organisation also called self-regulation, which in effect creates less of a level playing field. I would like to have individuals advising companies who have to stand up at the AGM alongside the RemCo and say: "I'm here and can be counted." That process of approaching an AGM and the fear of a 70% or 80% vote or whatever it is that's going to trigger the *Daily Mail* front page, that's the process that keeps people honest' (ExecRemConsultant: 15)
- E/PS: 'We're not really growing as a sector, and senior people are not staying, and people retire relatively early. One problem is with demand. If corporates on the whole demand less from their ExecRemConsultants because they want more standardised stuff' (ExecRemConsultant: 16)

- E/PS: 'ExecRemConsulting is essentially a selling profession. The problem is to have the vision that this is an important business, and I think no one has really cracked how to make an awful lot of money out of Executive Reward, because it is an unleveraged business' (ExecRemConsultant: 16)
- E/PS: 'Professions are important, but you have professions for two reasons mainly. One is to protect the public, and the other is to protect the profession. If you look at barristers and doctors, it's very much the first one. Maybe solicitors will fall under that too, to some extent. If you look at accountants/tax advisors, I am sceptical. It doesn't hurt, but most of the reason is to make sure too many people do not enter the profession. For ExecRemConsultants, that would be the main reason it would be set up. It's not easy to test them because the business is 90% politics and 10% technical' (ExecRemConsultant: 16)
- E/PS: 'Future for board advisory that is perhaps a little broader than just ExecRemConsultancy - performance, succession, and other things' (ExecRemConsultant: 16)
- E/PS: 'Sorry, I keep saying 'profession', it's a tiny business. It's not a profession. It's a craft that requires skills from a range of professionals and I think the professions are dying anyway, so with technology and artificial intelligence, the professions will be dead in 20 years. Paralegals with AI will overwhelm most lawyers, and nurses with technology will overwhelm most doctors. ExecRemConsultancy to RemCos is a specialised form of management consultancy, rather than a fiduciary role. I struggle to see how a body with power to discipline that would change/work, because our role is so amorphous' (ExecRemConsultant: 17)

- E/PS: ‘One of the least appealing aspects of our role is that to some extent we have become political brokers, in a sense the shareholders are much more powerful these days and proxy agencies - and the design of pay for executive directors is to some extent a political exercise. RemCos can’t do what they want to do, but want to do as close to what others want to do that shareholders will allow them. They’re paying for somebody who knows exactly the constituents of their shareholders’ proxy agencies and what they are likely to be able to sell to shareholders. We’re simply a middleman advising them on what they consult. Sophisticated client, who knows what he wants and wants to sell it. I occasionally think of myself as one of the architects who doesn’t necessarily do a huge amount of creative input into designing a house or extension, but is simply hired because they know the planners and can get it through planning. In my more jaded moments, I feel that’s the role we play. Somebody’s got to do it, but I don’t think it is a particularly creative or value-adding role’ (ExecRemConsultant: 17)
- E/PS: ‘The professional bit comes in, to me, because of the importance of the external shareholders, obviously, the interested parties of Government etc., in seeing it as something that has to be done professionally and ethically because otherwise it will do untold damage economically and in the world of business in the UK. So that’s where the concerns are coming from. Does this undermine the way people view corporate Britain, both here and abroad? This area. And I think that is the concern that people have at the moment, which is it does, and therefore we have to set this house in order’ (CoyExecRemSpecialist: 3)

- E/PS: 'I would have been quite happy to have worked in the knowledge that if I was ever found to have my hands in the till, the equivalent in executive pay if I'd been taking backhanders, or any of the real sins, then to be prevented from practising again would have been absolutely a rational sanction' (ExecRemConsultant: 2)
- E/PS: 'I am not saying that a lawyer only behaves ethically because he might get into trouble if he didn't. I keep coming back again to this point that I think the individual's own behaviour. You have to behave in an ethical way and I'm sorry to say that in the relatively recent past I think quite a lot of them didn't. I don't know what they do now' (ExecRemConsultant: 6)
- E/PS: 'I would say it is a specialism, rather than a profession' (CoyExecRemSpecialist: 5)
- E/PS: 'Further to the right, towards the Bain McKinsey side of your continuum. What we are advising on isn't... it's not so serious... the impact we have isn't the same as the 'new professions'. The people who actually make decisions based off our work, there's the lawyer between, and they have more impact' (ExecRemConsultant: 7)
- E/PS: 'Big Four firms have a sort of command structure or team structure which does actually have to check ExecRemConsultants' advice' (ExecRemConsultant: 9)
- E/PS: 'I think clearly where there is unethical practice I would want it to be identified and called out. There are a number of different sanctions that come into play at that point. One is self-regulation on the lines of a profession. An equally powerful one is market constraint/discipline. The impact on brand could be potentially quite catastrophic. The internal

compass is also very important. Our selection process is designed to ensure we pick people who have the right kind of approach. The kind of median personality type may have evolved over time. Less bullish in terms of some of the advice they might give. But that's the change in external environment. The micro-environment is just so much more difficult than it used to be. A more risk averse group of people for more risk averse times perhaps is the way I might describe it' (ExecRemConsultant: 10)

- E/PS: 'The investors' window is in on the Board and the governance is through individual engagement. So we can tell a lot about what's going on in the Board and the dynamic between the executive and the CoyChair, RemCo Chair and other NEDs, through remuneration decisions, and when we engage with RemCo Chairs, we get the sense of how on top of their brief they are... willing to stand up to the CEO...relationship with the consultants, and where there is perceived over-reliance on the consultants or in-house HR specialists' (ROO: 6).
- E/PS: 'There are a number of jobs and activities that the public find less attractive. I don't see ExecRemConsultants are in a class that should be forever denigrated. Second-hand car salesman and estate agents often step into that. Accountants do. Lawyers do. Doctors tend to avoid it. If you are a minister of religion, you are respected, rather than a tax consultant. It goes with the territory of the job' (NED: 2).
- E/PS: 'A lot of pay outcomes are the very simple results of power in negotiating positions. Executives have a strong negotiating position, given disclosure and public information, short tenure, lots of influential agents and employment laws. They take companies to the cleaners on new appointments. Whenever you see an egregious pay package, it's normally because the company is in a weak negotiating position and has

been out-negotiated. Maybe down to succession planning or whatever. I would give as an example, a situation of a new CEO appointment, where the CEO concerned was represented by an employment lawyer who acted in a rabid fashion. In six months' time, my name is going to be up there and I'm going to be accused of greenlighting this large pay package. I did everything I could to get the figure as low as possible. No one will ever know of the employment lawyer's involvement. That's why we get paid danger money, you know' (ExecRemConsultant: 17).

**4.3.14. RITG4:SQ2 - Do you consider that ExecRemConsultants have appropriate technical experience, operational processes and ethical training to support the provision of their advice to RemCos [Sub-coding 'TE/E' – ie., 'Technical Expertise/Experience']?**

- TE/E: 'It's quite a polarised business. Half of ExecRemConsultants I wouldn't let in our RemCo because I don't think the quality of the information that they have is good enough. I have replaced one Big Four partner with another because it felt like the Manager was turning up. You want somebody who can answer not only the first question they were asked to come and answer at the RemCo, but the second and the third. They can do it on the basis of knowledge and experience' (NED: 5)
- TE/E: 'It takes five years at least before you are actually safe to be let out on your own. The smaller firms of ExecRemConsultants serving the smaller companies set a much lower bar, and probably rightly. If you told the kids that join as graduates at the beginning how long it's going to take before they're any good, they'd go. Remuneration doesn't exist in isolation. It supports, complements, supplements the way the organisation runs. So for it to work it has to be seen in that context. You have to understand the places where things can go wrong. There are

some basics, like how to do benchmarking. Some of the things that go on in benchmarking makes my hair stand on end. How on earth can you produce market data from five samples?' (NED: 5)

- TE/E: 'If you 'age' data, it's a self-fulfilling prophecy because you're assuming that what you did last year will be what you do next year. I dislike being shown median and upper quartile for what are, at Board level, small samples. If one sees a spread of data, RemCo can look at it and say; "Yeah, we're there or thereabouts"' (NED: 5)
- TE/E: 'There is a core of technical knowledge that you need before an ExecRemConsultant can be let out. Level of balanced experience one needs to build up, and then I think there's a piece about how one translates that into advice. There are some stepping stones where there is a degree of commonality. I agree that ExecRemConsultants are a mile away from an independent body. That's why the RCG wasn't taken there at all' (NED: 5)
- TE/E: 'Case studies that say: "What are the things an ExecRemConsultant needs to think about?" One needs somebody independent of the firms because why would you train the opposition? Perhaps the RCG could facilitate? Every firm can contribute one case study. You would then not be allowed to do your own case study. You have to look at somebody else's. Two hour discussion with a senior leader and a more junior one' (NED: 5)
- TE/E: 'The vast majority who do this are qualified as something else...so the good ones you would look at have done some decent professional qualifications beforehand, and have come to this afterwards. We have in our firm legal, mathematical, and tax specialists. Without having our own professional qualification, an awful lot of people have come to this. One

of the advantages of a multi-disciplinary firm is that you can have this wide range of qualifications (because we sponsor people through these) and then experiences (when they qualify) and we can employ them, and make sure we give this rounded and better service to clients' (ExecRemConsultant: 19)

- TE/E: 'A sort of basic level of competence required would be a good thing. We have just been going through a programme of ethics training for several thousand employees. Ethics training is necessary in every single role, in every walk of life, would be my view. You could run the argument it's easier to abuse your position of trust if you're an accountant or lawyer. Is it really easy to do so as an ExecRemConsultant, rather than just being incompetent? I'm not sure. The remuneration consultancy industry should be doing ethics training itself. Not saying that as an assurance for clients, but as a protection measure for practitioners' (CoyExecRemSpecialist: 11)
- TE/E: 'Ethics training for your junior 25-year old who is fresh in and could be faced with a very overbearing CEO who would like a quiet word in his office' (CoyExecRemSpecialist: 11)
- TE/E: 'It's only by youngsters, if you've come in at the entry level, doing the sort of apprenticeship and going out with the more senior people that they realise the ethical components and some of the pressures that can be put on you' (ROO: 2)
- TE/E: 'People come into the profession seen as almost as a technical discipline with measurable standards, when actually it's a lot more messy and more about how you apply the principles in practice' (ROO: 2)

- TE/E: ‘You need to be bright, you need to be commercial, you need to have experience in business. I think you actually need a few miles on the clock. But I think ultimately, you need to be prepared to give difficult advice. You need to have the gravitas, for want of a better word, to say to these people I’ve got something to say on this and you will listen’ (ExecRemConsultant: 4)
- TE/E: ‘You need to be reasonably good at maths. You need to understand and have read the various institutional shareholder guidelines, listing rules. I guess it helps if you’ve got a basic understanding of company law. We’re trying to help companies attract, motivate and retain key talent. What they’re paying for is a body of knowledge built up over a quirky number of sectors that I happened to advise in, over twenty years. I’m not quite clear what CPD stuff is going to pass that on to the new generation. I do accept I have had a very niche career, I fully accept that...this is one of the most niche areas in the country. According to the RCG, we’ve got 200 consultants from new graduates to a senior partner in the country doing this. It’s an incredibly specialist profession’ (ExecRemConsultant: 4)
- TE/E: ‘Ethics are less a training issue, more of a cultural and awareness issue. Any firm that isn’t dealing with it is short-changing its employees’ (CoyExecRemSpecialist: 11)
- UST/E: ‘I’m not sure how much ethics training helps you from a public image standpoint because, in fact, it could be turned around and the next executive compensation scandal that gets committed, the public would say: “Well, supposedly that person, right, what happened there?”’ (ExecCompConsultant: 4)

- TE/E: 'In terms of the factors featuring in the appointment of ExecRemConsultants, the technical qualification is irrelevant. Some sort of professional qualification and training is desirable, but not convinced specialist executive compensation accreditation is the way to go. I have an instinctive preference for mathematical (ie., accountancy and actuarial), rather than legal qualifications. But it comes down to the quality of the individual ExecRemConsultant in the end' (CoyExecRemSpecialist: 12)
- TE/E: 'I think there should be ongoing training, but it should be internal. It's back to the technical expertise side. I also think that there should be a sunset provision on how long the consultancy should work with a particular Board...periodically review, every five years. You're probably going to rehire them, but it forces the firm to put their best foot forward...maybe it clears the air of any unhappiness that's going on between external consultancy and the client or vice versa. Costs of going out to tender are smaller for a company, compared to audit' (ExecCompConsultant: 2)
- TE/E: 'Do I think that ExecRemConsultants should have a more formal framework under which to advise? I think, actually, they should, because it is becoming so much more part of the requirement. Again, the need to report on remuneration policies and to agree that it's for shareholders. I think it would be helpful to have a more formal approach for the individual consultant. You have RemCos taking advice because the whole legislative framework has become so intense that they're taking advice from an expert. But it's sort of nice to feel that the expert was expert. And to do that, you need to have some sort of framework (such as for engineers and electricians)' (NED: 3)

- TE/E: 'I'm from the days of the gifted, or less gifted amateur. But certainly I felt that having a decent understanding of what the business was all about, and what the key individuals and measures were, enabled me to feel that I was sitting more alongside the NEDs and able to hold my own with the CEO and executive directors. Not in every area in which they operated, but I was able to identify with them thinking about the business and what its prospects and needs were' (ExecRemConsultant: 18)
- TE/E: 'Larger number of people are coming into senior jobs in the ExecRemConsultancy profession through that direct entry route, as a graduate or as a more general MBA. Is it right that you actually create a better core for them? For example, the head of practice of the ExecRemConsultancy firm understands numbers and professional standards in terms of ethics. Is he imbuing his people underneath with the same view or not? Treat it as a craft skill, with ethics attached. If you had an apprenticeship sort of thing. Is the profession big enough to have an executive remuneration qualification of some sort? There is such a thing in the US, but the majority of senior practitioners don't have it. What about the next generation and the one after that? Many of the junior consultants go into general Reward with companies instead rather than staying as ExecRemConsultants. Of course, they may come back to consultancy at some stage. You see what is happening. The reality is that you can't be an ExecRemConsultant without a hell of a lot of knowledge on pay. You can't easily come in with your legal qualifications or accounting qualifications or actuarial and say, well, that's enough to qualify me to do executive compensation' (NED: 4)
- TE/E: 'The problem is I do find now is ExecRemConsultants who have never done anything else. You need a hinterland of other experience. It's about how you form judgements around, is this the right thing or wrong thing you're doing. In the past, ExecRemConsultants were very

heterogeneous. Otherwise, how do they place broader questions? Executive pay is an art rather than a science. Well, it's an art and a science. If you lose the art bit, then the science can give you the wrong answer from the start. Modelling can be done in good spirit or bad spirit. That's where the hinterland comes in. It's purely a coincidence that actuaries are currently leading practices. A lot of consultants who lead these businesses are very colourful people. They're not grey actuaries; they're the ones who went over the wall. They're the gorillas who got out of the compound. They are very, very clever people' (NED: 4)

- TE/E: 'The development of an ExecRemConsultant is more like an apprenticeship. It's a hands-on learning experience. It's a real world, hands-on, dirty, there's no right answer-type of business' (NED: 4)
- TE/E: I think that many of the ExecRemConsultants I deal with at the senior level have huge amounts of technical experience. I think that's been increasing. Their data manipulation and knowledge, their knowledge of shareholder reactions, their knowledge of what happens in other companies, their knowledge of practicalities of vesting outcomes' (City Lawyer: 2)
- TE/E: 'I would be very reluctant to see statutory regulation, but maybe rather more formalised self-regulation, going more along the lines of the ICAEW or the Law Society. Anyone working in any field has got to continue anyway...got to have a process, whereby they're continuing to keep abreast of developments and able to challenge themselves as to the quality of what they're producing' (ROO: 1)

- TE/E: 'ExecRemConsultants are beginning to realise the importance of having people in consulting who can actually land stuff. I've seen more people fail going from ExecRemConsulting to internal, than people internally going into consulting, which is interesting. By a quantum of 10. Either they have failed to understand the politics of organisations, or there is the realisation that they can't make any of it work, and they have been got rid of' (CoyExecRemSpecialist: 4)
- TE/E: 'The best ExecRemConsultants are those who not only can come up with brilliant ideas, but have ideas that can work out in reality. Some are good at it, and some not good at it at all' (CoyExecRemSpecialist: 4)
- TE/E: 'They need to be more like strategy consultants...advice in the context of the business and the business strategy...impact on performance measures, working or not working. Think more like management consultant and plug in as much technical knowledge as you need from training and development, in order to get you to the right place' (NED: 1)
- TE/E: 'The skill of the ExecRemConsultant, in my view, is looking at the company, looking at its shareholders, looking at its economic situation and trying to create a balance between all these things, which is likely to result in an increase in shareholder value over the longer-term' (ExecRemConsultant: 6)

- TE/E: ‘Anecdotally, I think it seems clear to us that they do have sufficient technical expertise. This is, largely speaking, born out of accounting experience that they have the professional accounting experience. Key question is: “To what use is that professional experience put?” Is it put to rewarding effective performance that delivers sustainable results for investors over the longer term...or is it put to a much more short-term numbers game? There is evidence to suggest that the latter has occurred too much’ (ROO: 5)
- TE/E: ‘The ExecRemConsultants I have come across have always had access to sufficient technical experience. The individual might not have it all, but knows where it can be gained. I’ve got no reason to believe that the consultancies don’t go through a rigorous ethical regulatory process, if you like, within their companies. They want to protect their ability to do business with important clients. So they have to be able to demonstrate that they are clean and that their people behave in an ethical fashion’ (CoyExecRemSpecialist: 6)
- TE/E: ‘The Big Four are an interesting example because they’re accountants by trade; advise not only on remuneration, but all sorts of different business practices’ (ROO: 7)
- TE/E: I think they fit in between accountants and management consultants on your continuum. Again, it comes down to the individual qualities of the ExecRemConsultant’s experience and technical knowledge, knowledge of discussions, ongoing governmentally or elsewhere in business, or in the investor world...which client companies may need to take into account in coming to their decisions on pay and rations. So that’s the expertise that should be looked for when RemCo is selecting somebody to help them. Somebody who has gone through a professionally regulated and examined process will have certain qualities

and approach to life that somebody who hasn't may not have. Most professional qualifications scar individuals, in a good or a bad way, for the rest of their careers. Those are qualities that certainly fit very comfortably with the way ExecRemConsultants should handle themselves' (NED: 2)

- TE/E: 'You can probably tell from my voice that I am somewhat sceptical that enabling people to pass exams and box-tick makes them better at what they do' (CoyExecRemSpecialist: 3)
- TE/E: 'Our clients are entitled, I think, to expect any of us to have sufficient technical experience and knowledge to do the job for them. What they need from us is our ability to apply that knowledge in the specific context of their business and their requirements at the time' (ExecRemConsultant: 1)
- TE/E: 'I was going to say highly qualified people, alright, not specifically in there's no remuneration qualification, but they're lawyers, they are accountants' (CoyExecRemSpecialist: 2)
- TE/E: 'Certainly my CCP was very interesting, but did I ever apply any of that stuff? Probably not beyond the next 15 years...when you are in the RemCo meeting, it's absolutely about influence and questioning and probing, which is almost like legal skills. It wasn't anything I learned in my CCP' (CoyExecRemSpecialist: 1)
- TE/E: Do I consider the ExecRemConsultants have appropriate technical experience? Well, again, in my experience, yes, very much so. Plus, the operational processes and the ethical training to support the professional advice and the remuneration topics' (ROO: 1)

- TE/E: ‘My guess is that people who have perhaps trained as accountants or lawyers or whatever, who have felt that it was not quite meeting what they wanted in a career, and who were attracted by the idea of being a more complete consultant, in a narrow area. You have to have an understanding, to make success of it, of the legal, tax, company law, commercial aspects. It means there is an element of self-selection’ (ExecRemConsultant: 2)
- TE/E: ‘In the technical sense, I am very confident that the profession has the right people in it’ (CoyExecRemSpecialist: 4)
- TE/E: ‘Young consultants: I’m not talking about a day here. I’m talking working for a few weeks, either in a Reward department, HR or a line role in the company, so that they can see how it feels... I do think secondments are important to give that rounding. You realise that implementing some of these great ideas is a hell of a lot harder than people think. You’ve got to design stuff that is implementable, and consultants are not good at it. People in business are not good at coming up with the original ideas. So that cross-fertilisation is really key. Big Four: there is an arrogance in those organisations to say: “Well I’ve told you how to do it, right?” The partnership model would hugely benefit from bringing in more people with different levels of industry experience’ (CoyExecRemSpecialist: 4)
- TE/E: ‘Graduates: We prize the numeracy and the logical thinking that those individuals from those types of backgrounds have (audit, actuarial). For the first five years we’re asking them to do a fairly technical role. There’s a good lot of analytics. Later, the skills required become considerably different. It’s more about good judgement and being able to command the confidence of a RemCo, to hold confidences and to give

guidance, to become a trusted advisor. In other words, on your continuum, as ExecRemConsultants become more senior, they move leftwards towards the old professions' (ExecRemConsultant: 3)

- TE/E: 'Well, of course you do a kind of training each year to refresh ethical standards, and you get it from professional qualifications, but the whole culture of the company should instil that in its employees. You work on a team as well, so your colleagues should be there to notice if someone's acting unethically. Graduates are very much covered by that kind of thing because they go through a graduate programme. I think it's the responsibility of the firm to make sure they tell them where ethical boundaries are' (ExecRemConsultant: 7)
- TE/E: 'Executive compensation is a good practice area for actuaries, who are numerate and can speak English' (ExecRemConsultant: 11)
- TE/E: 'I think the training of ExecRemConsultants is something that we should take more care of. Save for the ABCs, and one or two others, even for Big Four, they're all small little units, so training is very difficult. Where I started, training was not big. You trained on the job. The training I received was informal and more rigorous than I've seen anywhere else. Big Four tends to make people become chartered accountants or chartered tax specialists. Very rarely would people do CFA. There isn't anything similar to the US: WorldAtWork. A lot of training is relatively irrelevant for compensation specialists...a really good compensation practice is a very diverse one: understand tables in annual reports, mathematical prowess, actuarial understanding, psychology: it is rare to get all of that in one individual, including good insight into how businesses work' (ExecRemConsultant: 16)

- TE/E: 'I'm somewhere on the right-hand side of your continuum: between traditional management consultants and the newer professions. Interesting whether ExecRemConsultancy is a proto-profession or not. What we do is much more multi-disciplinary than accountants, tax advisers, and therefore is perhaps less open, certainly more technically challenged. Professional curriculum and training around that. ExecRemConsultants need to draw on a pretty wide range of professions to operate successfully. You need tax advisors, lawyers, accountants, CFAs, and potentially others on the team. A wide range of professional skills on the team to make it strong and effective as a team. We're not just talking about individuals here. Use that diversity somehow or lose that kind of strength and depth that you get from combining individuals with different backgrounds on the team' (ExecRemConsultant: 10)
- TE/E: 'The market requires ExecRemConsultants to be up to speed on technical issues. A certain span of knowledge is required...accreditation would be useful...WorldAtWork is not really used in the UK...and graduates in the Big Four may be encouraged to gain ACA/actuarial qualifications, the general principles as opposed to executive compensation specifics...it could be limiting at the age of 23 to do an executive compensation qualification. What is useful is that being part of a profession makes you think about CPD' (ExecRemConsultant: 11)
- TE/E: 'I have my suspicions that ExecRemConsultants are, perhaps, subject to more pressure to give the answers that are wanted, than they were in my day. Appropriate technical experience? The truthful answer is that I don't know, but I hope they do. In my day, there were rumours that there were plenty of scoundrels around who were prepared to do whatever they were asked to do. The firms and colleagues I worked with didn't behave like that. Other firms I know did follow reasonably high professional standards. But I'm quite sure that there were very serious

malefactors around because there was no way of monitoring, checking or anything in those days. In today's environment, it's probably the only way of dealing with it, but does seem highly bureaucratic. Probably a rather desirable idea for today's problems. You can't just rely on the integrity of individuals and firms as some people did in the past. You have to check it' (ExecRemConsultant: 13)

- TE/E: 'The professional consultant...a lot of them came straight into the business...they gravitated from a good school and then instead of going to work in industry, they go to work for consultancies. Too many ExecRemConsultants do not care what the company does. They are just interested in the assignments, and that has led to lots of problems in the selection of proper peer groups. The firm, the practice leader, was driven by the billing monster: "I can't afford to have dedicated [ie., industry expert] consultants around, I want them to bounce from one sector to another". The client becomes unhappy, not due to collusion or whatever, but because the technical information is improper. So I definitely think the ExecRemConsultants need more training and quality control, and more rigorous industry quality. Boutiques? My intelligence from Boutiques is that it's necessary for lead consultants sometimes to re-work what ExecRemConsultants do as the latter are not delivering the sort of quality one saw in the past at ABC firms' (ExecCompConsultant: 2)
- TE/E: 'Let's be clear about what it takes to be a good ExecRemConsultant. I come in from a standpoint that a well-designed incentive compensation programme will drive shareholder value. You might come in from an actuarial or accounting point of view, and all of these stables create a different type of horse, and in my opinion, you can spot them a mile away. We create people who are 'mini-me's'. They are apprentices hired from the best universities because compensation is a very interesting place to first start your career' (ExecRemConsultant: 15)

- TE/E: 'You need to have people who have got some really fundamental skills. So you've got to be good at quantitative. You've got to be a quant, comfortable with and good at spreadsheets. Understand numbers. Be able to deal with maths easily, while at the same time being a human being who can empathise and pick up the signals' (ExecRemConsultant: 15)
- TE/E: 'Standards: In the past 10, 15 years, there's been a drain of senior expertise out of the UK consulting industry, as large corporates recruit senior ExecRemConsultants into Heads of Compensation & Benefits roles. Most of them do not seem to come back, so there is less experience around for the younger talent to learn from whilst on the job. The work becomes more about compliance, so skills are disappearing out of the industry. I think we will soon find companies start to use consultancies less. Problem in the industry' (ExecRemConsultant: 16)
- TE/E: 'It used to be financially more attractive to be an ExecRemConsultant. When I look back, there were always lots of people to learn from. When I started at a Boutique firm, there was little formal training, but the firm was petrified of data mistakes. So you learned attention to detail that was, in a just brutal way, that was for them the be all and end all. They lived by being the best data provider in the world, and that's how they maintained it. Big Four firms, they're petrified of lawsuits. So you learn quality assurance. At a particular Boutique, it was keeping close to the client. All places could have benefited from some ethical training as well' (ExecRemConsultant: 16)

- TE/E: 'In line with strategy consultants rather than accountants on your continuum. ExecRemConsultants are helping design a product regarding business strategy, not 'true and fair' sign-off, little reliance placed on ExecRemConsultants by shareholders, unlike external auditors' (CoyExecRemSpecialist: 12)
- TE/E: 'One man and his dog can come in and compete. In the States there wasn't exactly a painful transition to independence. They just walked out and set up their own Boutiques. You don't make fortunes out of this. If you are a big company, you have to show you can operate in the Boardroom, if you want to be serious about general Reward or HR consulting - in order to convince clients you can talk to their bosses. The future is still there for ExecRemConsulting, but we need to find ourselves, and my worry is that regulation will kill the fun off if too many people will not bother, and then just become compliance jobs' (ExecRemConsultant: 16)
- TE/E: 'I think it is important that the young people who come into this profession understand it requires much, much more than just acquiring the technical skills' (ExecRemConsultant: 1)
- TE/E: 'I think that if it was my son or daughter, I don't think I would advise them to come out of university and go to executive pay practice straightaway, because it is such a narrow career. I would say, go out and become an accountant or lawyer or whatever. Because you have then got the basis for a much broader career' (ExecRemConsultant: 2)
- TE/E: 'It's about emotional sensitivity and EQ, rather than IQ as well' (ExecRemConsultant: 2)

- TE/E: 'Remuneration advice is the next natural step for actuaries because there's lots of analysis around the performance measures and the payouts and so on and that's their comfort blanket and then they can talk around it and learn a bit more around behaviour' (NED: 1)
- TE/E: 'How do you deliver that level of training for your graduates, coming through the organisation? We have a very robust training system on executive remuneration and HR. We send people on WorldAtWork, CIPD, ICSA, management consultancy accreditation and MBA... not focused on the sole aspect of executive remuneration' (ExecRemConsultant: 5)
- TE/E: 'You would say: "I'm a specialist remuneration adviser?" Yes' (CoyExecRemSpecialist: 5)
- TE/E: 'I also think that RemCo members need a bit of training' (CoyExecRemSpecialist: 5)
- TE/E: 'And it might to a lesser extent than the person who is doing it for a living, but I think it would be a good idea for RemCo members to have training' (CoyExecRemSpecialist: 5)
- TE/E: 'Most people already have some form of professional qualification and, I think, that's kind of what makes ExecRemConsultancies work, is that you have a mix, you haven't pigeon-holed everyone into the same training. You have lawyers, CFA, ACA, and that blend is what works so well. If you did an accreditation it would basically be a blend of all these things. Implementation training, accounting training, financial measures training, surely not just have everyone follow the route they want to do' (ExecRemConsultant: 7)

- TE/E: 'Raw graduates: IMC in their first year, funding for CFA, that's probably the most popular one. But it's kind of more like if you'd like to better yourself the opportunity's there. It's not the company pushing them to do it' (ExecRemConsultant: 7)
- TE/E: 'I didn't know that a PwC or Deloitte would employ someone who had just been through the consultant route and didn't have an actuarial or legal background' (ROO: 6)
- TE/E: 'It may be that the professional training of an actuary engenders in the individuals a certain professionalism and integrity. An approach to life, that is different from the sort of seat-of-the-pants characters that could otherwise be there. I do think that their training and initial exposure to life in the big world of commerce gives them a certain style and approach that has been very valuable. I'm a bit surprised though that qualified accountants are not heading some of these things' (NED: 2)
- TE/E: 'I do think that those coming straight into ExecRemConsulting from university need to be trained in ethical areas' (City Lawyer: 4)
- TE/E: 'Raw graduates: There's a corporate finance bit. The basics of bonds and how they perform. Psychology and odd bits. Difference between corporate strategy, business strategy. Spreadsheets. I think I have revised my view on accreditation. Certain Boutiques in the past would recruit people in their mid-thirties who had already done management. We now have graduates coming into our firm. We give training and structure to graduate entrants. Management development programmes and assessment techniques' (ExecRemConsultant: 8)
- TE/E: 'Recruitment: I think it probably more difficult now to go down that route [ie., professional qualification first, then segue into consulting]. We

look at recruiting graduates at the moment. MBA students are fairly easy to find and bring in at the beginning and then build up. The middle tier is quite difficult. Top people may be persuaded to move organisation. But there's this challenge growing people in-house and through the organisation. We have a lot of challenges retaining people once they get to mid-level. We develop them over lots of experiences, lots of clients. Rapid experience. They want rapid promotion. Highly pressured and highly stressed environment. 50% of FTSE 350 companies have December year end, so September through to March is a high stress environment. Can probably take this experience and probably go in-house, reasonable position with a less stressed environment' (ExecRemConsultant: 5)

- TE/E: 'External consultants going internal? You have got this very niche area of expertise, and actually you don't have a wide enough breadth of experience to fit into any of the in-house roles. You hear: "I could go in-house and I'll have a better work-life balance, but I would be bored stiff within a few years because it is so cyclical". You hear that a lot, and it depends on what your priorities are' (ExecRemConsultant: 7)
- TE/E: 'Virtually all senior ExecRemConsultants are professionally qualified. That's how it should be. You pass exams, and your conduct is regulated. But I think in remuneration advice, it is working your way up, and getting experience and being able to work at Board level in big companies with institutional shareholders, and your value to clients is how you will be able to do that' (CoyExecRem Specialist: 9)

**4.3.15. RITG4:SQ3 - ‘Do you have a view on whether there might be a specialised RemCo advisory qualification/accreditation [Sub-coding: ‘SA/Q’ – ie., ‘Specialised Accreditation/Qualification’] given that the provision of such advice is not currently a licence to practise profession, with ongoing revalidation or CPD requirements and the availability of disciplinary sanctions [Sub-coding: ‘LTP’ – ie., ‘Licence to Practise’]?’**

SA/Q

- SA/Q: ‘Advising FTSE 100 firms: you would expect ExecRemConsultants to have expertise, judgment and experience. Any professional qualification obtained by such ExecRemConsultant would’ve been obtained many years earlier by the consultant concerned. At a more junior level, a qualification in executive compensation could attract talent into the profession and be a hygiene factor. There is no training or qualification out there (except possibly in relation to share plans). Having a disciplinary body could be useful. Perhaps the RCG could get more involved? An accreditation could be useful at a junior level’ (CoyExecRemSpecialist: 10)
- SA/Q: ‘I have to say, I think it’s all complete overkill. What you’re paying them for, as ExecRemConsultants, is advice on what other people are doing and what are the various options available. With conflict of interest, stand is if the consultant is induced to give duff advice or provide wrong information or whatever because he’s going to get a bigger reward at the end of it. You do not need to have people who are specifically qualified to do it. A lot of the base work is number crunching. I can’t see the benefit of turning it into a whole new profession with qualifications. I mean, that’s just nonsense. And all that would happen is that the client

will end up paying more, so I mean, I really think this approach is completely and utterly misconceived' (CoyExecRemSpecialist: 9)

- SA/Q: 'If they want to ratchet up their own perceived standards for accreditation, then you know it doesn't worry me too much. It's not going to change my life in terms of the value I get out of them, I don't think' (NED: 6)
- SA/Q: 'I don't think you need to be a professional accountant and then a professional tax advisor as well. Once you're an accountant, we'll settle for that. I don't really want to take it down to sub-levels. I don't want sub-professions. It's no coincidence insurance is called an "industry" and not a "profession"' (NED: 6)
- USSA/Q: 'In the US on occasion, I've read something about the possibility or someone floating the notion of having some type of accreditation that would require continuing education requirements. I'm not sure about a disciplinary board or being licensed, but none of this has really gained traction in the States. WorldAtWork has a Certified Executive Compensation Professional designation, but this is not the same thing as lawyers or CPAs where you need a licence to practise, and mandated continuing education requirements and disciplinary boards for individuals or firms that exhibit bad behaviour or worse. In executive compensation, so much of the advice is business judgment advice. There's accounting and tax securities law involved, but that's a fairly small piece of the advice you give. Guilty of malpractice?' (ExecCompConsultant: 4)
- USSA/Q: 'US: licences. It limits access to who can come into the field. They are able to manage and control that. So there's some commercial advantage to requiring that type of educational requirement, licensing,

certification, or whatever, is that it creates a barrier to entry. I can see some type of requirement for ethics training' (ExecCompConsultant: 4)

- USSA/Q: 'The questions we have covered today do make me think again about the benefit of having some type of professional body, continuing education, ethics and compliance training. The question of whether that would be valuable to our profession? Would it make us better ExecCompConsultants? Will it help restore public trust in the work that we do? I don't know. I'll be interested to see. The jury's out. I'll be interested to see how the UK experiment in all of this evolves, and whether it accomplishes the desired objectives, and if it does, then I would be all for looking and adapting some or all of that in the States' (ExecCompConsultant: 4)
- SA/Q: 'Do I think we need a disciplinary body plus examinations and CPD? It's a lot to ask of a profession with only 200 people in it. Who would pay for it? Who would examine it? Very burdensome on the profession to set this up. We have looked at things with CIPD, but whether there is at least an exact kind of module, that could be something we give greater consideration to. It's really, really difficult to ask 200 people to become an examination body and to sit for the exams every six months, and pass people' (ExecRemConsultant: 19)
- SA/Q: I marked exams when I qualified as an actuary (in a profession with 20,000 members now). It's a lot of time. A lot of effort getting them to the right standard. Not to be underestimated at all' (ExecRemConsultant: 19)
- SA/Q: 'There is a lot of variability in the profession of consultancy-type services, which comes down to the individual. On the face of it, you can have good and bad lawyers. It happens the whole time. By and large, if

someone has become a qualified solicitor, they have been through a very rigorous training, which actually, if you sort of stack it up, is not far different, in terms of time to register it, than a doctor would spend: six or seven years. So it does introduce a level of assurance and competence, and it is very strictly policed. It doesn't stop there being crap lawyers, but it does bring a certain level playing field in the sort of quality of training that someone will have behind them. Now that's a hell of a long time to devote to getting yourself qualified to practice in a certain area. Do I think that in the area of ExecRemConsultants advice there should be a similar qualification? I kind of learnt on the job. I actually don't think there is enough to learn in terms of spending that sort of time devoted to it' (CoyExecRemSpecialist: 11)

- SA/Q: 'Remuneration advice is hugely important area. On one level, let the market decide. Do I think it would be desirable to have at least something of a higher degree of standardisation discipline? I think I probably would, but I wouldn't overdo it. Ultimately, it is for ExecRemConsultant firms to make sure the people they're putting forward are the best. That they are well-trained, commercial in outlook, presentable, give user friendly advice. All of that stuff you, frankly, don't learn going through some form of qualification process' (CoyExecRemSpecialist: 11)
- SA/Q: 'Young consultants need good training, but there does not have to be a specialised executive compensation accreditation. I favour broader qualifications, such as accountant or actuary, rather than doing an executive compensation qualification alone' (CoyExecRemSpecialist: 12)

- SA/Q: ‘I think your point about, they probably have another professional qualification, should instil proper modes of thinking and ethics’ (City Lawyer: 4)
- SA/Q: ‘For most other professions, there is an examination. There’s membership. There are professional standards. In a sole practice there would be very little to ensure practice backup, whereas it’s different for solicitors and accountants. So perhaps a little bit more professional would be useful. I think professional standards should be encouraged, but I’m not entirely convinced they should be mandatory’ (ExecRemConsultant: 12)
- SA/Q: ‘We all know people who have grown in organisations, by experience, and are doing a very sound job. But for some reason they flunked the exams and therefore they cannot be appointed actuary to a pension fund, for example, even though they work alongside colleagues who trust them fully, and get them to do the work, but they cannot sign the certificate. And I think it’s like that in ExecRemConsulting as well. Particularly people who join an organisation, get trained in certain disciplines, don’t necessarily qualify, and do a very good consulting service both internally and externally. When I do pitches, I come up against ExecRemConsultants who have appropriate technical expertise. One Big Four firm made its training materials available to the RCG. We hold regular Monday lunch teaching and training, where expertise/batons passed on, with encouragement, but no obligation to take professional qualifications. Do we need a specialised executive remuneration advisory qualification? What do I think about the idea of a licence? No’ (ExecRemConsultant: 12)
- SA/Q: ‘Body of knowledge for HR teams. Mid-1990s, American Compensation Association—became WorldAtWork in 1999. Earlier, this

had been converted to an executive compensation course to be taught in the UK. Then called the Global Remuneration Organisation, which eventually folded back into the American Compensation Association and became WorldAtWork. Developed course jointly with CIPD here and it didn't work terribly well. US approach to modular knowledge and the ability over two days to teach the basics of executive compensation and examine it is actually pretty good. WorldAtWork/GRO are good. So I would encourage that, but I would not say you have to have a part in all of those to be up to date. Do you need CPD? Absolutely essential' (ExecRemConsultant: 12)

- USSA/Q: 'Special accreditation? Theoretically, in the US there is WorldAtWork. That was helpful, but I don't think it made much difference. Really important for firm: time to go back over the work/training/learn the sector one's working in before bouncing from sector to sector. Clients not willing to pay for this though. Disciplinary actions? Firm gets fired, that's the disciplinary action. In the US, litigators lurk in the weeds looking for executive compensation things they can litigate against a company. Plus ISS also takes an interest' (ExecCompConsultant: 2)
- USSA/Q: 'I think there is a little bit of difference between somebody doing medicine or law...so I don't think CompCo advice rises to that level. I'm not going to advocate that you must have some form of accreditation' (ExecCompConsultant: 2)
- SA/Q: 'Someone coming straight into ExecRemConsultancy as a graduate must have an odd view of the world...it comes from the hinterland argument...the actuaries who've actually chosen not to pursue what they're professionally qualified, but to do something else...which is a useful career for them...because most of them are definitely not failed actuaries...they're actuaries...having got the qualification...then they

look over and say: “I’m not sure”. It’s an easy thing in an actuarial/ABC firm if you want to do that. You’ve got a graduate intake and you’ve got an actuarial intake. Thirty years ago, not many people made their careers in consulting. They moved across mid-career. I moved into consulting after I’d finished my MBA, having been for a long period of time in HR. ExecRemConsulting is a discipline that you could write a professional qualification in, and then take a view it is equivalent to an MBA, or equivalent to an actuarial qualification? If you set each of these people the same problem, would they come to a similar answer in executive remuneration? Do you see what I mean?’ (NED: 4)

- SA/Q: ‘All I would say on this is I think there’s a danger in setting standards and targets and other things that this becomes an excessively expensive exercise with disproportionate return’ (City Lawyer: 2)
- SA/Q: ‘The market would fairly quickly identify anyone who is not competent to undertake their work and competent in technical skills or ethical standards, or in general behavioural skills. A good service is being provided, and people do have good technical standards and recognise where the ethical barriers are. I think there is no one accreditation that would be able to cover the area. I think it is important for individuals to do some kind of professional exam. In the Big Four, they are encouraged to become accountants. When I was with an ABC firm I encouraged them to do Masters of Finance at LBS, or to think about an MBA after they had five or six years’ business experience. Not an accreditation per se, but it would give them, in a way, that business understanding and a context for the advice they were giving to clients’ (NED: 1)
- SA/Q: ‘I think there is a good case for accreditation, especially if Boutique firms are going to proliferate like they have in America, that there’s some kind of standard. So I think it’s a good idea. Whether you then need all

the CPD stuff, I'm not sure. Different from medicine, because it's changing. Quite a lot happened in this sphere of remuneration 20 years too...but it's not life-threatening' (CoyExecRemSpecialist: 5)

- SA/Q: 'More like accreditation than licence to practise' (CoyExecRemSpecialist: 5)
- SA/Q: 'The idea of somehow doing generic training, the reality is that it's going to be very generic stuff. Do we have the confidence to actually express our limitations? We should be very clear to clients what we don't feel competent about or what we need to qualify. Now probably the rear-guard of the old generation. How do you get from being a back office data guy to a trusted business advisor who is the lead advisor to a FTSE 100 company? And each firm is going to have to do that in its own way. Could we create a professional qualification that is no less rigorous than an ACA exam and therefore, would that provide the answer? Well, no, there's only 200 people in the profession. The answer, I think, is largely in-house training. If there's a will to get people through, they'll get through' (ExecRemConsultant: 4)
- SA/Q: 'The Share Scheme Lawyers' Group: We share knowledge and we promote training and members of competing firms will train people from other firms. And that prompted some people to create a course in share plans. Youngsters in this field of practice are going off and getting their certificate in share plans. The idea of some sort of accreditation or recognition/training certificate certainly has some value to it. All kinds of service providers need to be thinking defensively these days, the education and immersion in the subject is part of this defence' (City Lawyer: 4)

- SA/Q: 'They're nearest the management consultant end of things on your continuum. There's not a specific, clear qualification, and where the advice they give is shaped by a range of external inputs, this is the one I think is really interesting. Executive pay is a complex topic. I am trying to develop my number two, to potentially become a successor and she has a background in generalist Reward. She's done courses on share plans, stuff with Tapestry, through their company secretary qualifications. She's done stuff with Park, and we're doing internal stuff to try and help her with judgement and being able to stand in the face of a strong CFO and say: "Look, this is the position and stop arguing with me about it. Please give me the information I ask for". There's no one qualification. Whether in-house or consultancy, I think executive remuneration accreditation would be a useful thing, project- and time-management, as well as some of the technical stuff, plus ethics and dealing with conflicts. Obligatory, or is it a CIPD-type optional thing? I'd probably say it's optional. The value the qualification would add to a person would be significant; that you would want to have that qualification to do the job well, regardless of whether it is absolutely essential in order to do the role you do' (CoyExecRemSpecialist: 7)
- SA/Q: 'I think one of the problems has been that even up until now, it isn't big enough to be a profession. Is it something that you would actually go and train for and say: "I want to be an ExecRemConsultant?" Or to come at it from another route, others have come from: general manager of a consultancy, lawyers, or accountants. Okay, I can build on that, and I can start using the main thing to think about being an ExecRemConsultant. Background and basic skills are important to this, but I'm not certain that you would have a big enough platform to have examination questions on remuneration and benefits consultancy' (ExecRemConsultant: 9)

- SA/Q: 'I have not hired anyone in the past 20 plus years who has not either stayed in the business or moved on to be very well paid with another firm or big corporate or has left to go to a good job. There are no failures in our track record. This is a very good career. Now, if you put onto that a process of apprenticeship and accreditation, what it does, it says somebody, somewhere sets an exam which presupposes that, if you have a set of skills you will become a better professional with a better ethical position or posture or whatever. I'm not sure that's the case because of the multitude of things you need to be able to provide your clients: knowledge of business strategy, how to deal with different cultures, how to deal with people with 30 years' experience who are on the Board, taxation in various territories, share scheme experience. I don't know how you create an exam that you pass to be able to do that job. I guess that's the answer' (ExecRemConsultant: 15)
- SA/Q: 'Accreditation: that is an idea perhaps worth exploring further. Certain institutional shareholders might be sympathetic with that kind of approach, including licence to practise - especially those who are most vocal about questioning independence of the advice that's given to companies. Both accreditation and licence to practise. We already have a RemCo experience requirement before a member of RemCo can be appointed to RemCo Chair. So something along these lines would actually prove useful. I have some sympathy for let's do nothing or let's perhaps talk about accreditation. Licensing would be a step too far (in terms of licence to practise) unless there is substantive evidence that either they're not impartial/they're not independent, and there is a strong conflict of interest' (ROO: 8)
- SA/Q: 'And those professions are already being regulated. It maybe precludes people who haven't got an existing professional body operating in the world of RemCos. Well, I don't know whether that's a good thing

or not. Because I'm not sure, I've met people who haven't got a professional body who are excellent ExecRemConsultants' (CoyExecRemSpecialist: 3)

- SA/Q: 'Accreditation: yes, I'm sympathetic to it, because as a means, may be one of a number, but as a means of helping the industry, the profession, to engender within its young people coming through the important other aspects, if you will, aspects and skills required to do the job properly' (ExecRemConsultant: 1)
- SA/Q: 'So I would be quite wary about putting something in for the sake of it that creates an industry of people who had to do the training and become trainers for these things to let people sit exams. There's some balance in there somewhere. I'm not quite sure what it is' (CoyExecRemSpecialist: 2)
- SA/Q: 'Accreditation: Because that's the bit I'm wary of is that sort of, it would be great if you could have people coming into the industry early on in their careers because there's not really much of a path for them to join' (CoyExecRemSpecialist: 2)
- SA/Q: 'CPD/accreditation: So, all is about what tests are there. I think the market judges, that you want someone who knows the world, is adept with figures, has got comparator groups, understands the company, understands, as I say, the odds are possible, all these things backed by juniors. I don't think it is exactly something you can test that way. I just don't think it's a technical excellence kind of work. There's no right or wrong answer in many cases, in any event' (City Lawyer: 2)
- SA/Q: 'I think on accreditation, I think guidelines, I think minimum level of knowledge around four or five key areas would be useful because, in my

experience, people are either deep-dive experts in one area but know nothing about the rest or they're very generalist around four or five different ones. And I think in a room where decisions are trying to be taken around those things, you possibly don't have a level playing field and you therefore get suboptimal decisions' (CoyExecRemSpecialist: 1)

- SA/Q: 'I'm amazed there isn't an accreditation, in the sense that I'm amazed that someone hasn't jumped on the bandwagon in providing it' (ROO: 1)
- SA/Q: 'Chartered Executive Remuneration Consultant? I'm not convinced that this would add enormously to the equation and I don't think it would do anything to address some of the challenges. Enormous multiplication and complexity of pay arrangements, and still a difficulty in aligning these to performance and relevant stakeholder interest' (ROO: 1)
- SA/Q: 'Accreditation: Is it a big enough profession to warrant that? And, you know, how would it be dealt with? Who would oversee it? Would you have an independent ombudsman so that clients could make complaints?' (City Lawyer: 1)
- SA/Q: 'Specialised executive remuneration advisory accreditation? I think I would like to see that worked up as a philosophy, a test of it. Whether it's the training at the bottom end or whether it is something even the most senior person would continue to provide evidence of development in. It is now a discrete profession, whereas it was an infant in the 1980s and 1990s' (ExecRemConsultant: 2)

- SA/Q: 'You could devise a two year, very structured, very intense training programme if you thought in all these areas (ie., accounting/tax etc.) to an extent' (ExecRemConsultant: 2)
- SA/Q: 'I think you'll still come up against the risk that if they are only trained in executive remuneration that it is not as commercially useful to the individual for their career as it would be to have started as a lawyer or accountant or whatever. Because then if you find after a year or two or more in executive pay that it isn't what you want to do in the future, you can go back to your origins and have a firm foundation. But I think it depends whether you are looking at the quality of service to the client or the career path for the individual, and there may be different answers to the two questions' (ExecRemConsultant: 2)
- SA/Q: 'The CIPD has a Reward qualification that was set up ten or twelve years ago. One of the interesting things is that people thought, well, this would be a great thing for ExecRemConsultants to do because, if you come from accountancy, actuarial or legal background, this would help you put it all into context. The interesting thing is it's not the ExecRemConsultants who came on the course, it's actually the HR people from the consultancies themselves. It's actually the people who work for Big Four in the HR department. It's the non-fee earners rather than the fee earners who'd be populating the course' (ROO: 2)
- SA/Q: 'WorldAtWork, you pass by multiple choice and the CIPD you pass by writing essays, four essays, within three hours' (ROO: 2)
- SA/Q: 'You also look at how the job specs for jobs advertised, often for Reward, they'll ask for an accountancy background or a maths background. Especially when it comes to ExecRemConsultancy. If you've slogged your guts out for four or five years to get your accountancy

or actuarial qualification, do you then want to do another 18 months or two years to do your HR one? There are ExecRemConsultants who have done a CIPD qualification, but that's because their personal circumstances meant that they were able to do that at the time' (ROO: 2)

- SA/Q: 'You've got to have an inquiring mind to do the job of an ExecRemConsultant. You want to fix complicated problems and you've got to want to ask why and you want to get your head round into all the kinds of things most people think are boring. So there's a huge amount of self-selection in it. They will train and help themselves. They want to know anyway. Not CIPD. The consulting firms and profession itself serves itself well. A lot of firms are happy for one ExecRemConsulting firm to share its knowledge and its innovations. I struggle with formal accreditation. I am really in the middle on this one. A lot of it is like apprenticeship. You learn on the job. Your accreditation is your reputation' (CoyExecRemSpecialist: 4)
- SA/Q: 'I'm sceptical about the value of accreditation because at a junior level I'm not entirely sure it would be actually helpful. I'm not sure our clients would particularly value accreditation amongst more junior members of the team. If one were to establish an accreditation which applies to lead advisers only, well, to be honest, I think there is sufficient information in the market already. Most of our clients are reasonably sophisticated buyers. In many cases the criteria on which they're buying are probably not subject to quantification and testing... rather than trying to push it into the constraints of a qualification' (ExecRemConsultant: 3)
- SA/Q: 'I can see that some people would find the security of a qualification helpful in their careers. It isn't a necessary part of the career, but I actually understand why some people would find that, have a need for, effectively, more structured development in the development of their career, and

some people are happy with fluidity in their careers. We recognise that there are certain skill sets we ask people to pursue, which may individually have qualifications (IMC qualification). I tend to think that it is a more helpful way of allowing people to develop their careers than trying to funnel them down the direction of a very specific qualification in our own area' (ExecRemConsultant: 3)

- SA/Q: 'I think it is difficult to say you have some sort of professional qualification because there is no one professional qualification that covers the whole gambit of things you need to be able to do if you advise on all aspects of it' (NED: 1)
- SA/Q: 'It would add a perception of greater professionalism I suppose to the industry which I can see there's going to be benefits in doing that, but I don't think it's a huge issue as it stands at the moment where you don't have that in place. I'm sure you could devise a training programme, some accreditation which would add onto that, but I don't see it as essential' (ROO: 4)
- SA/Q: 'Helpful to walk into the boardroom and say: "I am a Certified Executive Compensation Practitioner"? No - I also don't think it will help the client. Professional level of quality in advice? All our ExecRemConsultants go through CERP once they've been in post for a period of time. Is that helpful? Yes, it is' (ExecRemConsultant: 5)
- SA/Q: 'I'm not a great fan of the CIPD. I have to say. Which has made a profession look after its own, to almost "big up"' (CoyExecRemSpecialist: 6)

- SA/Q: 'Accreditation? Well, I'm sort of a bit sceptical of that. It's a bit CIPD-ish. Making a profession out of HR management is bigging up personnel people, frankly. And there's an awful lot of untalented, process compliant people who come out with a CIPD graduate member qualification and yet all they can do is tick boxes. That might just be an issue with the CIPD' (CoyExecRemSpecialist: 6)
- SA/Q: 'But at the point at which they become a profession, there were all sorts of people who were just climbing over the wall by experience [referring to the CIPD]' (CoyExecRemSpecialist: 6)
- SA/Q: 'I think it's structured training that leads to a point where you earn that accreditation, whether it's an exam or you submit a paper, whatever it is. I'm not a hugely strong believer that this needs a massive CPD requirement' (CoyExecRemSpecialist: 5)
- SA/Q: 'I think there should be more than there is today, so I'd be nearer the CIPD approach than the BMA one. It's hard though, because when it's going wrong with remuneration advice, it's going to go wrong when the company fails. So how much of that is going to be the fault of the ExecRemConsultant? One assumes he's given advice in good faith on a scheme that is looking to reward success. I suppose he could be guilty of advising on a scheme that is going to reward failure. It is far more likely it's going to be executives in the company who are needing to be shot, rather than the ExecRemConsultant. So I don't think one needs to go overboard on it' (CoyExecRemSpecialist: 5)
- SA/Q: 'Accreditation: Are we creating accreditation for accreditation's sake? As a RemCo, they will get training from a range of sources; some will be internal, some will be external as they try to discharge their duties' (ROO: 6)

- SA/Q: 'I am a lawyer and MBA (sponsored by my employer). What other badge do I need? I've technical expertise, whereas in some firms just a few consultants are technical experts and rely on internal, central resources of a few folks for such expertise. Ethics training is crucial. US Boutiques have really seasoned practitioners. Their reputations are out there' (ExecCompConsultant: 1)
- SA/Q: 'I'd be worried about it actually. I don't find there's an appropriate accreditation. The only way I would see that as being valuable is something that the remuneration consulting world had to put in place to curtail unnecessary and inappropriate Governmental interference in the continuing world of ExecRemConsultants. If that heads that off, then I can understand it. The only people who would have to work hard to get an accreditation would be those who probably haven't been through some type of professional experience in that before' (NED: 2)
- SA/Q: 'Raw graduates: It may be easier, better whatever for such individuals to take another professional qualification whilst in consultancy, rather than creating a new one. Getting a grounding as a lawyer, accountant or actuary... Something that is appropriate for the skill set they're looking for. I just don't think that creating a professional accreditation process for the graduates who come into the process who otherwise don't have a professional qualification would be helpful' (NED: 2)
- SA/Q: 'I think one of the problems for ExecRemConsultants is that it is a rather broad spectrum of expertise you need to have and it would be very difficult to say, we're going to put you through a three year course that trains you to become an ExecRemConsultant. It's interesting you're implying that perhaps they're becoming more technical and homogeneous. There is a big bit about legal and tax, and accounting,

and share plans. Business, shareholders' expectations and volatility of the results. You need a good financial background, sense of business, great interest in it and never let anything go. Googling it and making sure you have understood it. So I think it would be difficult to accredit anyway because you have to start with a list of required expertise' (ExecRemConsultant: 8)

- SA/Q: 'Somebody could become an accredited ExecRemConsultant? N years of training or N years of hands-on practice: Stage One. Then doing a submission to review and learning each year to keep your qualification. I'm struggling a bit really. ExecRemConsultants on your continuum are closest to management consultancy. I think you can have someone running a team who is of enormous value to a client, but he may not be from a particular discipline. Accreditation? So if you've got a particular level of skill then that counts to a certain qualification that would count towards you being an ExecRemConsultant in a particular field, linked perhaps with years of experience in the field, to get the sort of charter or licence' (ExecRemConsultant: 9)
- SA/Q: 'I do still like the idea that it is almost a situation where you could say you have had experience and you have certain skills. So it would be qualitative and positive things. It would not be passing a test, but it would actually be showing you've passed the test but you would have a basic qualification in accountancy or would you say professional matters? Yes, from the CIPD stuff. I think we were getting a bit closer to what could be a practical and useful thing to say that almost an approved ExecRemConsultant badge you could wear' (ExecRemConsultant: 9)
- SA/Q: 'Accreditation? I would be open to that certainly. The question in any event is how? Very small group of people at the end of the day. You don't have the advantages of scale to make that a sustainable model over

the longer term. Potentially, internal advisers too. NEDs too? Why should they have to learn what the experts know (they pay them for sound advice, from experts)?' (ExecRemConsultant: 10)

- SA/Q: 'The IOD don't represent the FTSE 350, or the FTSE 500 in general, and they realise that. One way is it try and get this accreditation. The FTSE NED Club has stolen a significant march on them and is attracting lots of people through their accreditation programme. Far more practical, and what they get is current practitioners, current lawyers, current head-hunters, to go and run programmes. What the IOD gets is retired business people, in their mid-sixties, who are trainers' (NED: 1).
- SA/Q: 'I think they have already got a degree of professional accreditation through the professional standards that they adhered to through accountancy etc., so I think you would need to look at the profession and see how many were qualified. I am not at this stage convinced that another professional accreditation is... how valuable it would be. If the RCG were to develop something else and they were to use that to assess quality, well there's an argument there. But I think you would have to look at these specific qualities and technical expertise required, in addition to the professional standards they supposedly adhere to. Certain Relevant Other Organisations are examining corporate culture, the behaviour of the company in the Boardroom, within the wider company and towards wider society. There are limitations on the use of law, regulation and codes in various voluntary efforts. All of these things will influence behaviour, but ultimately they won't control it. I think the RCG should look at the culture of ExecRemConsultants and how that works. There are things that you can measure. I think that it is an area where RCG needs to work. Probably not big enough to be a standalone profession. Accreditation would not necessarily hit the button' (ROO: 5)

- SA/Q: 'RemCo, with accredited ExecRemConsultants, could say we actually hired experienced people, and it gives you a little bit of a carrot for a younger person to try to aspire to: "if I get that I can become a qualified ExecRemConsultant. I've got a sort of career enhancing step, I can go on to other people"' (ExecRemConsultant: 9)
- SA/Q: 'Big Four graduates may be encouraged to gain ACA/actuarial qualifications, the general principles as opposed to executive compensation specific. It could be limiting at the age of 23 to do an executive compensation qualification. What is useful is that being part of a profession makes you think about CPD' (ExecRemConsultant: 11)

### *LTP*

- LTP: 'Firms of ExecRemConsultants are professional in the UK. The licence to practise is probably a step too far for external consultants. A lot harder to prove problems in a RemCo environment, than with accountants or doctors. The RemCo makes decisions, not ExecRemConsultants. Performance conditions for incentive plans might be satisfied despite the company going bust/directors walking away with millions. Having disciplinary sanctions/licence to practise could lead to a witch-hunt against ExecRemConsultants. It is important that ExecRemConsultants understand what to do if management is putting pressure on them to act/advise in a particular way - so ethical standards are relevant' (CoyExecRemSpecialist: 10)
- LTP: 'I will not say you need a licence to practise, but I think that anybody who becomes a member of the RCG will soon learn that here is a body of knowledge required, which is necessary to be an ExecRemConsultant, and is changing continually in the remuneration field. The disciplinary sanctions are available through the RCG. As far as I know, they have

never been invoked. So far I think we've never had a complaint, but the Chairman is there and there's always a possibility of your firm being drummed out if you do not adhere to the VCC' (ExecRemConsultant: 12)

- LTP: 'You would want to do that through the whole professional framework of education and licensing and continuous practice development. Why should that not apply to ExecRemConsultants, as it's becoming more structured? The sanctions on non-compliance are...that's really, I think, for the profession to police itself more than us as a user. So I daresay, as a user, if one felt that one has been negligently advised, one could look to the assurances and...take them to court if necessary' (NED: 3)
- LTP: 'Maybe two handfuls of serious executive compensation practitioners, if that. And it's quite esoteric, but to those who want to hire people, or to use people in this area, and maybe it's unfortunate, the same names come up. It was reputation, and reputational referral is really what this business is based on, and that's pretty powerful. And I think that licences and diplomas really rather get in the way' (ExecRemConsultant: 18)
- LTP: 'A GP's limits of reasonableness and an ExecRemConsultant's are not the same. The former have recommendations in diagnosing that someone is ill. A licence to practise in remuneration consultancy? What would be the sin? Bankrupt the company? This is a creative business, rather than a wholly analytical business and licence to practise professions are driven by the right analytics. For example, an ExecRemConsultant pointed out to a particular RemCo Chair that one of the critical measures of performance in the company concerned was being manipulated by the CEO in the way it was defined. The ExecRemConsultant told them that, and the RemCo Chair chose to do

nothing about it. Having a qualification for an ExecRemConsultant in these circumstances doesn't make any difference. The only argument one might put forward is that an ExecRemConsultant needed to have the analytical ability to have noticed it, and the attention to detail to notice it. "Certified Remuneration Committee Advisor?" Yes, I could see a curriculum. Such as WorldAtWork in the US' (NED: 4)

- LTP: 'A lot of what I do is not something for which I need my licence to practise as a lawyer, but because I qualified into this profession I would be very reluctant to let it go. It's partly my own professional view of myself, and I think it does have an impact on the outside world because even if I am giving advice that does not require a licence to practise. The fact that I am a licensed practitioner provides them with comfort and confidence in both the standard of advice and the ethics that underlie that' (City Lawyer: 4)
- LTP: 'Coming into this I was in a CIPD kind of position...you are more likely to find an easy pathway through the profession if you are CIPD qualified, and more likely to be seen as employable. On the personal piece, I do think there's an issue and actually having something that has given you the direction about what ethical looks like, but means if you're doing something spectacularly bad, should have a professional sanction. I think the accreditation thing as a voluntary thing in line with the CIPD...if you wanted to raise standards, then that helps to achieve that. On the striking-off issue, this actually pulls me more towards it being a licence to practise profession...yes, I'm headed towards thinking about 'rifles at dawn'' (CoyExecRemSpecialist: 7)
- LTP: 'Licence to practise would be a bridge too far, quite frankly. Adding enormously to the complexity and cost of the whole undertaking' (ExecRemConsultant: 13)

- 'LTP: 'I think is not such a bad idea. You should have a licence to operate, which is not something that requires an entry exam, but is something where, over time, you would be gently reviewed by peers. If there was sort of multiple problems. What happens if you get a real rogue operator in the business? I don't know one, really. I've come across lots of clients who, frankly, I think should be taken out and their licence to operate should be taken away, but I've not met an ExecRemConsultant, and we're talking obviously here about competitors, but I don't know any in this position' (ExecRemConsultant: 15)
- LTP: 'I am too tired to go through a licensing programme every five years, but I do think it's a good idea, I'm afraid' (ExecRemConsultant: 15)
- LTP: 'I do not believe in licensing, nor other aspects such as licence to practise profession' (ExecCompConsultant: 3)
- LTP: 'Once you create a closed shop, you create barriers to entry' (City Lawyer: 2)
- LTP: 'If there's so few of them anyway, are they all going to start awarding themselves certificates to practise? I wouldn't have thought that it would help' (ROO 1)
- LTP: 'Over-regulation and rules is the wrong answer. It needs to be NEDs and ExecRemConsultants being in a place where they are acting in the most appropriate way. Rules are parent-child relationship. There's too many rules. There's too much regulation. Turn that into the level of self-control that we are all expected to exhibit as an adult, through understanding of what the Code [RCG's VCC] is about, the moral judgement on the back of it, and making sure you apply it' (CoyExecRemSpecialist: 4)

- LTP: 'I tend to think licensed practice almost works more in the negative than in the positive. It's more about having one's licence revoked... I'm probably fairly sceptical about the extent to which the policing of the granting of a licence would be particularly effective. I can't think of an example in the last ten years or so where I can imagine that an individual might have had their licence revoked for advice' (ExecRemConsultant: 3)
- LTP: 'I can't think of any examples where there would have been professional misconduct or gross incompetence, which I think would be the standards required to revoke a licence' (ExecRemConsultant: 3)
- LTP: 'You'd need to have very public defenestration of them (potentially a couple of ExecRemConsultants who maybe overstep the line), but it's not something I think is critical at the current time' (ROO: 4)
- LTP: 'I don't think it should be a terribly onerous process because, compared with the law or medicine, executive remuneration consulting is quite a narrow field, isn't it? It includes elements of accounting and law. I think the CIPD is the best place for it: no point in writing curriculum and exam papers. You've got to have somebody who's actually running the thing and making it work and getting it taken seriously. Basic building blocks, with a strong emphasis on behaving properly. It's how you put them all together in a responsible way that is remunerative enough to keep the person in post or attract somebody to the post and that isn't actually going to upset the whole applecart on a corporate or national scale over time. I think that's what we've seen happen' (ExecRemConsultant: 6)
- LTP: 'I think it could have a positive impact, yes. It is something that could help or even be desirable. It's very much a question for the industry rather than for a regulator. It's quite a small niche area, yes. There would be

some benefits to accreditation. And it might even help to increase the pool of knowledge... certainly, because remuneration is a fairly new area from a regulatory standpoint. There are limited skills there available in the market for us and, more often than not, when we seek to bring in new skills and opportunities from the market, it does include quite a lot of training required on remuneration from us, because there is simply a limited pool to draw on' (ROO: 7)

- LTP: 'It just sounds like an extreme measure. As an advisor you want to be able to present all the options and be able to advise on the pros and cons across all the spectrum. If you were scared that the decision a RemCo made based on your advice could come back and bite you, you wouldn't be providing a full 360° advisory service potentially. I can see the benefit of having disciplinary actions if you advise someone to do a plan that then had tax implications that grounded a company. It's more the RemCo, but they should be... I don't know' (ExecRemConsultant: 7)
- USLTP: 'I'm a member of a US State Bar, but do not currently have a licence to practise law. The State Bar would not be able to take disciplinary action against me in respect of my activities as an ExecCompConsultant. Common for corporate lawyers to become executive compensation practitioners' (ExecCompConsultant: 1)
- LTP: 'I do not consider ExecCompConsultants need a licence to practise [acknowledging that strategy consultants do not have a licence to practise]. Not keen on an accreditation process either' (ExecCompConsultant: 1)

- LTP: 'An accountant thrown out of his Institute can still do accounting as it were. Somebody can use them as an adviser, unlike a doctor or lawyer. For a professional ExecRemConsultant there would be nothing to stop them going round and selling their wares anyway' (NED: 2)
- LTP: 'I don't think disciplinary sanctions would have the bite to be effective' (NED: 2)
- LTP: 'Accountant/actuary saying: "These numbers/reserves are right, within their materiality." ExecRemConsultants are giving professional advice on how to do things. I'm not in favour of licence to practise for ExecRemConsultants' (CoyExecRemSpecialist: 8)
- LTP: 'I think, to be honest, CEOs would take ExecRemConsultants more seriously if there was some legislative requirement, which is not necessarily saying I agree there ought to be. One of the best consultants I worked with had no experience. If he had had to have all sorts of financial qualifications, he'd never have got into the game. It's different from finance, it's pay in people's pockets. So people get far more emotional about it. It does require a slightly different skillset to an auditor, and you need these types of people. But I would like to think that they'd had done some kind of body ensuring they're competent to do what they need to do. I'd liken it now to pension funds, where people who are pension fund committees or whatever...trustees... I don't know whether they're encouraged now, or they have to take some form of study or exam, and I think something like that is needed for ExecRemConsultants. So just to ensure there is a common standard, particularly with so many Boutique organisations popping up' (CoyExecRemSpecialist: 5).

- LTP: 'I think we'd probably move them slightly to the right of your continuum, but I wouldn't take it as far as full disciplinary procedures, then we'd assume there's almost a charter qualification there, and I have not heard any calls for that' (ROO: 4)
- LTP: 'If we're talking about a licence to operate as ExecRemConsultants they probably need to be disclosing a bit more about what they are actually doing. Capacity to drive better behaviour. If you are having to disclose something that means you, generally, have got to start thinking about what you are doing' (ROO: 5)
- LTP: 'If you are consulting around something that has huge public interest invested in it, it's probably not appropriate to be such a free agent as you would be if you are a McKinsey consultant, for example. But I don't think that it goes as far as being a lawyer or doctor' (City Lawyer: 3)
- LTP: 'I think there should be more than there is today, so more of a CIPD approach than a BMA one. It's hard enough though because when it goes wrong with remuneration advice, it's going to go wrong when the company fails' (CoyExecRemSpecialist: 5)
- LTP: 'Having an internal disciplinary thing is quite sensible. You want people to adhere to certain standards. For heaven's sake, don't turn it into something that's Government run, or the Government setting up something, it's just the kiss of death' (CoyExecRemSpecialist: 9)
- LTP: How are you going to draw the line between what you can do and what you can't do without a licence? I'd rather see it as an accreditation. So it's a kitemark or standard. If it's good enough the fact is that it will become a licence in a way because no self-respecting RemCo will appoint any ExecRemConsultant who hasn't got it' (City Lawyer: 3)

- LTP: 'I suppose you could argue that, as Government intervention grows, perhaps you're going to come up with a situation where things have to be signed off by a qualified Reward professional. And then, who's going to be the qualifying body? One of the things about being in the CIPD is that because you do not have a licence to practise, it does force you to be a bit more innovative and creative in that people don't have to buy your services' (ROO: 2)

**4.3.16. RITG5:SQ1 - 'What is your perspective on CoyExecRemSpecialists working relationships/interactions with RemCo's appointed ExecRemConsultant, and with the RemCo itself [Sub-coding: 'WorkingRelationshipsCoyExecRemSpecialists /ExecRemConsultants and RemCo']?'**

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I've considerable interaction with ExecRemConsultants, but have little impact on shaping their views. I provide data/information on business objectives. ExecRemConsultants go to the RemCo meetings, but come to me for a factual check only. Came across a situation in my consulting days where CoyExecRemSpecialists had shaped the advice ExecRemConsultants had provided. This would be a direct conflict of interest situation. CoyExecRemSpecialists are very important/useful/valuable to ExecRemConsultants: providing staff data and numbers (and the in-house financial team providing company/specific accounting/financial information). CoyExecRemSpecialists take the recommendations of ExecRemConsultants and make them a reality. It would be quite frustrating for CoyExecRemSpecialists to be given something prepared by ExecRemConsultants that does not work for the company concerned' (CoyExecRemSpecialist: 10)

- WorkingRelationshipsCoyExecCompSpecialists/ExecCompConsultants and CompCo: ‘CoyExecRemSpecialists definitely are an integral part of that whole process, and I believe that over the last several years again with disclosure and heightened governance that they, on the management side, respect the lines of reporting and responsibilities between the ExecRemConsultants and the CompCo and themselves. It happens actually quite frequently where in the course of working through a particular compensation matter and interacting with management they will say something to us along the lines: “Look this would be our preferred approach, our way to address this matter. But you, as the CompCo’s ExecCompConsultant, need to research your own decisions, conclusions and provide your own independent objective advice to CompCo, and we understand and respect it” (ExecCompConsultant: 4)
- WorkingRelationshipsCoyExecCompSpecialists/ExecCompConsultants and CompCo: ‘I actually feel good and maybe sometimes actually relieved when management will say to me they understand the governance world we are living in and need to operate in and understand and respect the fact that we are the CompCo’s ExecCompConsultant and need to be true to that reporting relationship, even if it means we are going to end up potentially disagreeing or providing a piece of alternative advice to what management feels is the better action’ (ExecCompConsultant: 4)
- WorkingRelationshipsCoyExecCompSpecialists/ExecCompConsultants and CompCo: ‘Management needs to be part of the process, I absolutely believe that... we’re never going to have an understanding of the company that is as deep as management’s and we’re never going to have as valuable a perspective as management needs to put forward. So if the alternative to all of this is to completely warn-off management from the process and do our work in a vacuum then I’d much prefer to deal

with a very few situations that rarely come up where you feel pressured to shade a report or recommendation, as opposed to simply saying: “We’re going to create a wall and they shall not work with management in any way in doing our work” (ExecCompConsultant: 4)

- WorkingRelationshipsCoyExecCompSpecialists/ExecCompConsultants and CompCo: ‘You’d walk into that CompCo meeting and you’d present your report and recommendation and management would say: “That’s all very well and good except for x, y and z, which you never knew about or were aware of, and therefore it kind of makes your work”. You may as well bin it’ (ExecCompConsultant: 4)
- WorkingRelationshipsCoyExeRemSpecialists/ExecRemConsultants and RemCo: ‘Some CoyExecRemSpecialists are fantastic, and try and give a balanced argument to the RemCo plus their boss, the CEO, or the HRD. Some of those don’t last too long because you’ve got a megalomaniac CEO. They don’t particularly want a balanced approach from the people who are supposed to be on their team. Then you have the ones who are basically cheerleaders for the CEO. Whatever the CEO wants, they go in and rally around and try to get that over the line. They are often not trusted by the RemCo (not held in high esteem by the RemCo either) and ultimately end up falling foul of the RemCo who say: “We don’t want to work with this individual anymore” - and they too end up trying to find a new job. Being a CoyExecRemSpecialist is a hiding to nothing. It’s a really difficult job’ (ExecRemConsultant: 19)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: ‘CoyExecRemConsultants can go one way and offend the CEO, or you can go the other way and offend the RemCo, and trying to find that balance is incredibly difficult. Whereas being an ExecRemConsultant is easier to some degree, because our job is not

necessarily to make anybody happy. It is to make everybody more informed, to make a better decision. Sometimes the CEO will be upset with you, or the RemCo will say: “That’s not what we wanted to happen” (ExecRemConsultant: 19)

- WorkingRelationshipsCoyExecRemConsultants/ExecRemConsultants and RemCo: ‘If you can say the right thing, it’s better than where you think you have not done the right thing but you’ve been forced into not doing the right thing’ (ExecRemConsultant: 19)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: ‘CoyExecRemSpecialist needs the ExecRemConsultant present at the RemCo, to support them on market practice: private medical insurance, shareholding guidelines, tax treatment of share plans etc’ (CoyExecRemSpecialist: 12)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: ‘I think the internal team is very important. How it reacts with the RemCo is also very important, and that’s from the perspective of the RemCo, and again this is something that’s moved on significantly in more recent years, which is that the RemCoMembers must be aware that there could be a conflict of interest with some of the information that has been given to them by CoyExecRemSpecialists’ (CoyExecRemSpecialist: 3)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: ‘But in my experience the in-house role is difficult because a typical RemCo, you will have several roles... there are relatively few HRDs I’ve come across who are both numerate and economic and organisational. Relatively few HRDs who can articulate that and who can link executive behaviours to culture, executive behaviours to performance

at the systemic level of the organisation, it stays in the pay package and bonus package conversations' (CoyExecRemSpecialist: 1)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'The HRD or Head of Reward role is critical in getting consensus, getting buy-in and explaining. The often unfortunate truth is that Reward sits within HR. HR is a support function, essentially, for the business. I think it is still quite rare for the HR function to be able to have a really equal voice in terms of opinion and negotiation with the rest of the Executive Committee' (CoyExecRemSpecialist: 1)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'CoyExecRemSpecialists can act as a useful interaction between ExecRemConsultants and the RemCo. I'm satisfied there is a role for them. They can add, both are useful, sort of sense check' (ROO: 1)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'There's always going to be a conflict with CoyExecRemSpecialists that they have to manage, that they are sufficiently independent and provide the RemCo with unbiased advice. I think a lot of CoyExecRemSpecialists seek external advice to protect their own position. There's also the fact that the in-house person will also be very, or potentially, influential in the appointment of ExecRemConsultants' (City Lawyer: 1)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I think, broadly, CoySecs would tend to use lawyers more than ExecRemConsultants, but over the years Executive Reward has become a much more powerful role within large organisations, and often the natural affinity for people in that role, will be accountants, rather than

lawyers, so they tend to use ExecRemConsultants within the Big Four' (City Lawyer: 1)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I think they have quite a difficult job, and I think they probably regard ExecRemConsultants and, indeed, the RemCo as other legs of the stool that helps keep them out of the muck and bullets too much' (ExecRemConsultant: 2)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'Not so much about HR generalists and HR specialists, but almost, in general, you've got within Reward people who are generalists and do a wide range of things and other people who are very specialist that they come from a non-HR background who may or may not understand the different theories of Reward or the different types of motivation' (ROO: 2)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'HR doesn't have a particularly strong influence. They provide the information that the ExecRemConsultants will use. They give them some kind of guidance on where the RemCo is coming from and perhaps the language to adopt. They provide the support function to the RemCo' (ROO: 2)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I've seen it from both sides, and I've seen it go right and I've seen it go wrong. I've seen organisations where there is an adversarial or competitive fight between the RemCo and their internal Reward team and, usually, their CoyExecRemSpecialist is on the side of the ExecRemConsultants, not the Reward team. Where I've seen it the other way around, and more normal, is a really good strong working

relationship between the internal Reward people and the ExecRemConsultants. There is this reification of ExecRemConsultants, but the internal people are experts in their company' (CoyExecRemSpecialist: 4)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'There is, understandably, a small minority of cases where that relationship does not function as well as it should, where you have a particularly strong or difficult individual in the in-house role who seeks to influence the dynamic of setting pay for the senior individuals to a greater extent. It involves a failure of at least one, if not both, of the other two sides in that triangle for that view to prevail' (ExecRemConsultant: 3)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'They [CoyExecRemSpecialists] are jolly useful, as they have surveys from multiple sources – so as an ExecRemConsultant you've got a view as to what your competitors are saying in relation to that company and you could pick up useful tricks about any new things that come into the marketplace' (ExecRemConsultant: 6)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'The RemCo Chairs are very intelligent, business-savvy individuals who'll know not only the executives involved, but they'll know how the capabilities of the CoyExecRemSpecialists stack up. And you know how they're being pushed as well. RemCo Chairs would expect the CoyExecRemSpecialists to present them with the full facts, before being able to make a decision' (ExecRemConsultant: 5)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and Remco: 'Most CoyExecRemSpecialists are able to develop good working relations with the ExecRemConsultants and have no axe to grind

about whether or not anything untoward goes on in that respect. The potential for CoyExecRemSpecialists to feel that they need to provide the important advice that they think their executive superiors want to hear, is always going to be a risk. You can't hide behind ExecRemConsultants and I don't think you should' (CoyExecRemSpecialist: 6)

- WorkingRelationshipsCoyExeRemSpecialists/ExecRemConsultants and RemCo: 'The people I work with at a lot of clients are usually people in these roles. They're the main point of contact. But I don't really see how they interact with RemCo too much. I'm not privy to that relationship. And as far as interaction goes they are vital because they give the context a lot of the time. I need their knowledge and experience to be able to apply advice to the company. And they always seem like they have a good relationship with the RemCo. I haven't really seen them being a block, a block to work happening or trying to influence decisions too much' (ExecRemConsultant: 7)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'Those in-house people, and maybe I'll exclude CoySecs, but particularly the HR function reporting to the CEO who is the recipient. So there is an inherent conflict of interest that they are automatically trying to do what is best for their boss, because if they're not seen to be challenging or challenging whether this is the right thing, they're challenging their boss and is that a sustainable thing to do? Well, what is the right reporting line? Should it be like the internal audit function with a dotted line to the Audit Committee? I think it is something RemCos should be more aware of than they currently are. Certainly, I've heard it less from the corporate side than the investor side' (ROO: 6)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'In-house specialists come in all shapes and sizes and in my experience are generally not necessarily well-versed in the details of the top executive remuneration needs and considerations. They may have more experience than the general organisational remuneration practices and pay requirements of the business, but not necessarily the very top folks. They're quite happy and very pleased, actually, to be able to interact with some outside expert, who comes in on his white charger, with help in this area of darkness, as far as in-house folks are concerned' (NED: 2)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I do think you have to be very patient to be an in-house person. Probably more so than to be a consultant. You need in-house, ability to influence getting stuff out of people who don't want to give it to you (in the context of Finance focusing on finance at year end). In-house: you probably do lose some of the deep external consultant technical stuff on coming in-house, but you're trading it for a much broader understanding of the company. You care more about driving company performance, rather than the ins-and-outs of technical stuff itself' (CoyExecRemSpecialist: 7)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I think the internal role is a good one and it shouldn't, if properly handled, be a problem with acting with ExecRemConsultants. It shows that the whole subject is being taken seriously' (ExecRemConsultant: 9)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'This goes back to the triangular relationship between in-house and management: CoyExecRemSpecialists,

ExecRemConsultants and the RemCo itself. I see these relationships working very well where there is trust and I see that in the majority of cases. Where trust breaks down it can be very difficult for an organisation and for the Board to reach good decisions that are in the interests of the broader organisation' (ExecRemConsultant: 10)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'As an ExecRemConsultant you are front office, not back office... internal staff need commitment to the planning and process of Reward or to run a team getting it done' (ExecRemConsultant: 11)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I think HRDs are having to become more involved in the whole process. Again, as a counter-balance to the huge fees charged by ExecRemConsultants. It's rather like an auditor. If you don't do your accounts properly, you're going to spend a large amount on audit fees. Then if you don't do your executive director compensation properly you're going to spend a lot of expensive time with the ExecRemConsultants that you should really not do' (NED: 3)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'Buried in that question is probably the reason why it all goes wrong, I think. I can describe absolutely horrifying relationships with internal resources. As an example, an utterly dysfunctional CEO, who's greedy and a Director of Reward who would do anything to keep the CEO from throwing toys out of the pram. I was caught in the middle and got fired. We've done the right thing and yet we have suffered a financial hit. It's very, very, very difficult' (ExecRemConsultant: 15)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'The key relationship is between the CEO and the RemCo Chair and the ExecRemConsultant, which you know I did say as part of that the in-house HRD is a key supporting role for the CEO, and that's very important' (ExecRemConsultant: 4)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'Two-thirds of the things I discuss with management never, ever go back to the RemCo. And I think everyone's happy with that' (ExecRemConsultant: 4)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I've had the situation when someone in management will say: "Oh, can you just put together this analysis for me and send me a report?" We have written immediately to the RemCo Chair to ask permission to do this' (ExecRemConsultant: 7)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'It should be made perfectly clear to the ExecRemConsultants right from the outset that they are accountable to and responsible to a RemCo. They will be working with other people in the business, whether it's the executives or HR team, but they have to understand (or they wouldn't remain in the position long) that they are consultants to the RemCo' (NED: 2)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'If my advice is going to be used in the taking of important decisions, I want to talk to the person who is taking the important decision. Not through intermediaries. I would insist on talking to the relevant executive directors' (ExecRemConsultant: 13)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'CoySecs are less likely to get into details with the RemCo than the HRD or Compensation & Benefits Director' (ROO: 6)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'Most Boutiques do not pay as well as CoyExecRemSpecialist roles. I don't think you can be successful as an ExecRemConsultant without a decent working relationship with the CoyExecRemSpecialist. Including, normally, the CEO/CFO/Legal. If you work purely with the CompCo, the internal team can feel like it's gotten jammed down their throat. Does the Board trust the internal team? CEO and a CoyExecRemSpecialist need to have their say, and then they're willing to accept whatever the Board finally settles on. Board members sometimes want the hottest, newest thing around, and management says: "That's just not going to work around here". I think shutting out the internal guys is a mistake' (ExecCompConsultant: 2)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I can think of cases where in-house people were terrific, really good to work with, were quite independent in their thinking, and at least as smart as we were. Furthermore, having the benefit of knowing the company intimately is a great advantage. I can think of other examples where such people could have been more useful to us in doing our job, keeping us out of things, would represent our data in a way that we may not have intended. They may have taken our name in vain. It's quite hard to generalise. They really are conflicted. But they will know far better than any ExecRemConsultant what impact any changes can have for the workforce in total. There are safeguards and that the RemCo is not being advised solely by those folk, then I think it's okay' (ExecRemConsultant: 18)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'I find there's a big problem with bias, and CoyExecRemSpecialists wanting to work with their former colleagues [ie., ExecRemConsultants]. I think less and less we see demand for Compensation & Benefits Directors who are truly senior specialists. The expertise is not there in companies for doing conventional change and improvement' (ExecRemConsultant: 16)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCos: 'I have had some amount of complaints about CoyExecRemSpecialists actually from the side of ExecRemConsultants. Some of them, particularly Top 30 FTSE 100 companies, have told me it can be kind of difficult to defend their position when they don't agree with in-house advice. There tends to be a lot of pressure on ExecRemConsultants to recommend higher pay packages. In-house may see themselves as knowledgeable as ExecRemConsultants, and entitled to an opinion' (ROO: 8)
- USWorkingRelationshipsCoyExecCompSpecialists/ExecCompConsultants and CompCo: 'They are excellent. Their jobs overlay with others; they work effectively with ExecCompConsultants, to put together joint proposals. My practice is to write to CompCo Chair about any significant contact with management. I also ask the CompCo Chair if he/she would like to see drafts (some do, some do not). Material changes? Can see the value in letting the CompCo Chair know, but leaving it to him/her whether to tell the CompCo Executive has pay still increased despite massive improvements in US corporate governance. This is not due to corporate governance - arguably, it's the labour market' (ExecCompConsultant: 3)

- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'Variable within companies and variable between companies. The Head of Reward is normally quite an independent thinker and well aware of what shareholders want and is trying to make the right decision so they tend to be trying to do the same sort of things that we are' (ExecRemConsultant: 17)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'The problem with in-house people is that the NEDs do not trust them entirely. A good in-house person is just like an ExecRemConsultant – a bit like a consultant without the independence. Like consultants, but stripped of their independence. It comes back to relationships. Disputes about pay get in the way of good relationships with the Board, who fall over backwards not to have a confrontation with the CEO about their pay' (NED: 4)
- WorkingRelationshipsCoyExecRemSpecialists/ExecRemConsultants and RemCo: 'Relationship between ExecRemConsultant and the Director of Reward are the most difficult because the latter is internal. They view the ExecRemConsultant as a threat. The Director of Reward has less budget/more cost conscious. Ultimately signs-off the bills, and is perhaps looking to become a consultant in the future or was a consultant in the past. Think they know the right answer/young/more easily in a position where they feel threatened by someone from the outside' (ExecRemConsultant: 15)

**4.3.17. RITG5:SQ2 - ‘What is your assessment of any protocols adopted for initiating and managing the provision of RemCo advice (and review of successive drafts for advisory reports) [Sub-coding: ‘RemCoAdvisoryProtocols’]?’**

- RemCoAdvisoryProtocols: ‘Australia: Extent to which reports unmodified and the ExecRemConsultant has to confirm to the RemCo that it’s their work and their views, which I think is not actually a bad thing. Being an independent CoyExecRemSpecialist in an organisation is very tough. ExecRemConsultants can walk away. It goes back to the US 1% rule - it gives ExecRemConsultants the leverage to walk away. One would need a kind of ‘start-up exclusion zone’ in the UK, for ‘independent’ ExecRemConsultants. CoyExecRemSpecialists: It’s more catastrophic if you’re fired, than for the ExecRemConsultant. Most HRDs know nothing about Reward. They know which side their bread is buttered: where essentially their job is butler to the CEO’ (NED: 5)
- RemCoAdvisoryProtocols: ‘There is a communication issue too: The language must not be alien to participants. It would be difficult if ExecRemConsultants could not interact with CoyExecRemSpecialists due to legal restrictions. The excessive/successive drafts issue can resonate in certain circumstances, but it comes down to the ExecRemConsultant’s integrity. ExecRemConsultants need to take heed of what executive management have to say, but then to have direct access to the RemCo. It needs to be the ExecRemConsultant’s advice’ (CoyExecRemSpecialist: 10)
- RemCoAdvisoryProtocols: ‘It relies on the integrity of individuals, and again protocols. A bit like counting angels on pin heads. For the thing to work well the ExecRemConsultant has got to understand what the dynamics are in the organisation, particularly if you’ve got a very powerful

and dominant CEO, and especially if you've got one who is highly motivated by the size of his pay packet, and what he can maximise on. ExecRemConsultant needs a fair assessment from HRD/CoySec, particularly if the CEO feels he owns the ExecRemConsultant. It depends entirely on the integrity of people' (CoyExecRemSpecialist: 9)

- RemCoAdvisoryProtocols: 'If there's a material change from the draft then the RemCo Chair should see the different drafts. But if not, they should be told about the changes. If the RemCo Chair is doing his job properly he should be on top of the personality of the executive directors and the extent to which they're likely to try and influence the outcome' (CoyExecRemSpecialist: 9)
- RemCoAdvisoryProtocols: 'Sometimes it is the management's paper for the RemCo, and sometimes our paper. Usually these papers are shared between each other, so they can correct any factual errors in our paper. We could not accept any input that says: "We do not believe this is a good idea." That's an opinion point, not factual error. The RemCo Chair has a decision point at the two week point before the RemCo meeting to say: "Happy with the papers or want something changed". If it's all hunky dory, there's no need to choreograph it so much' (ExecRemConsultant: 19)
- RemCoAdvisoryProtocols: 'I've seen reports go straight to the RemCo, which have led to the remuneration consultants being sacked, because they just gauge it wrongly. Quality, relevance or style. Here's the final draft - you need to know, by the way, that we've changed the following things. Otherwise it would waste time with the RemCo Chair' (CoyExecRemSpecialist: 11)
- RemCoAdvisoryProtocols: 'Generally, I think our Reward teams are fit for purpose. They're quite narrow. ExecRemConsultants are giving advice rather than information and quite often internal people are not giving

advice, they're putting forward alternatives. Internal people have, in my experience, difficulty landing on a recommendation partly because they have to live there for the next 20 years. ExecRemConsultants should never give the pen over to internal people to amend the drafts [ie., ExecRemConsultants should keep ownership of drafts]. Powerful conflicts of interest in-house? Yes, career is the biggest. Is this going to damage my career?' (NED: 1)

- RemCoAdvisoryProtocols: 'Our principal point of contact with the company is the RemCo Chair, and all our reports are sent to that person, and where there is a close, where that tripartite relationship of the CEO and us and the RemCo Chair is working well, we send our reports to management as well, with the RemCo Chair's approval, so that everyone knows and can see the journey' (ExecRemConsultant: 1)
- RemCoAdvisoryProtocols: 'Assessment of protocols: I think it's the bit of the process we've got control over, we need to ensure we've got absolute control over the client being completely unambiguous as to what our advice is. And anything that diminishes that is unacceptable. You should be prepared to articulate verbally and somewhere there should be a written record of your thoughts' (ExecRemConsultant: 4)
- RemCoAdvisoryProtocols: 'I'm always pretty clear with my client that at the point at which they wish to say something that goes outside what we are prepared to say, we change delivery of the document. I would say nine times out of ten a good consultant should be able to get the in-house team to an understanding of what they are recommending is the right outcome and therefore avoid the situation in that you effectively have a stand-off' (ExecRemConsultant: 3)

- RemCoAdvisoryProtocols: 'I think companies operate their RemCos, the annual agenda or the particular meeting protocols and processes they go through which differ for each and every company, by reference to size, personalities involved, individual preferences or perceptions. Relationships, indeed, with the ExecRemConsultant. Whilst the ultimate decision may not be different, the process of getting from A to B is quite different' (ExecRemConsultant: 5)
- RemCoAdvisoryProtocols: 'We've happily said to companies: "If it's worded like this, we don't feel that there can be a joint report. If you accept our changes, then it can be a joint report. If you don't accept the changes then we prefer it if it was your report, but we will write a comment paper". And also, it's helpful... because the normal process...is to have an *in camera* session at the beginning and end of RemCos without executives present. This can be a tripartite relationship in some way or other' (ExecRemConsultant: 5)
- RemCoAdvisoryProtocols: 'Myners: successive drafts; it would be interesting to know when that took place because one of the things we emphasise [as a Relevant Outside Organisation] is the role of investors playing their part in talking to RemCos and their consultants' (ROO: 5)
- RemCoAdvisoryProtocols: 'Material changes to reports: I think RemCo is kept quite well in the loop. The relationship with the RemCo Chair, and most of my clients, seems to be they want... well, most of the drafts go through them rather than management. You'd work with the CoySec to get together a draft and then you'll sort of send it back and forth, I think they'd be pretty aware of most changes going through' (ExecRemConsultant: 7)

- RemCoAdvisoryProtocols: 'I have always ensured that I have an unedited version of the ExecRemConsultant's report before management can get their sticky paws on it and adjust. There are probably a lot of discussions between internal and external. ExecRemConsultants must ensure that they have the right data, but it shouldn't be an edited or highlighted process that they're going through with the internal folk' (NED: 2)
- RemCoAdvisoryProtocols: 'I think the protocol by the way with the RemCo is dealt with quite well by the RCG's VCC. The process for reaching answers, and getting them adopted and brought along is the central part of the project. There's no way a CoyExecRemSpecialist can assist at the same sort of things we can assist, nor are they going to get the ear of someone if they want to run the report in front of the CEO first. So I think they tread a much more unstable tightrope' (ExecRemConsultant: 8)
- RemCoAdvisoryProtocols: 'It comes down to the judgement of the person in the CoyExecRemSpecialist role. The only things I put right is where the ExecRemConsultants put nonsense in or where there could be additional information to provide or clarity in what they've put (for example, put in regressed and non-regressed data)' (CoyExecRemSpecialist: 7)
- RemCoAdvisoryProtocols: 'If the first draft is going to them first [i.e., the CoyExecRemSpecialists] and they were editing it for material changes, I'd be worried. I just don't think that's the right way forward. If they step in the way of the process, somebody's going to hate them' (CoyExecRemSpecialist: 8)

- RemCoAdvisoryProtocols: ‘The idea of working through eight iterations of reports for RemCo. I don’t know where these other companies are coming from. My first draft usually also is the final one’ (ExecRemConsultant: 12)
- RemCoAdvisoryProtocols: ‘The right process is for ExecRemConsultant’s reports to go to the RemCo Chair with copy to executive management. Both sides must be kept comfortable. Strike the right balance between advice favourable to management and advice favourable to shareholders. Executive management needs to have input on pay arrangements to be properly motivational. ExecRemConsultants enjoy the intellectual challenge of their role and being able to say: “No”’ (ExecRemConsultant: 14)
- RemCoAdvisoryProtocols: ‘There are dangers around successive drafts of reports and combining ExecRemConsultant input and management input. That’s the area where conflicts have to be most clearly managed, because it’s kind of insidious, step-by-step, can you change this? Each change in itself is fine, but then you end up saying something different’ (ExecRemConsultant: 17)
- RemCoAdvisoryProtocols: ‘It’s not egregious, it’s not huge, but occasionally you do see a report going out and you think: “Hang on, I didn’t mean that” or it’s imputed that I signed up for this, when it’s actually a management paper. So, you really have to be on your toes here’ (ExecRemConsultant: 17)
- RemCoAdvisoryProtocols: ‘Australia: Really strict rules on ‘paper management’, and who can see what first, where drafts go and who can see them. We write a letter to the RemCo explaining our involvement in each paper. Generally speaking, we don’t get involved in the drafting of

papers. We write a separate 'comments' paper. In reality of course we will provide verbal feedback beforehand, so that we don't embarrass anybody. For a big company that's not a bad discipline, being very explicit about these protocols. It would seem over the top for anything other than a FTSE 30 company, because it adds a huge amount of bureaucracy to the process' (ExecRemConsultant: 17)

- CompCoAdvisoryProtocols: 'We typically offer the CompCo Chair or ask the question: "Would you like to see drafts of our work or report along the way as they're being worked on, and we would be happy to copy you in on these drafts at the same time as we send them to management?" Almost universally the CompCo Chairs have said: "No thanks". I don't know what the better process is, but it puts the ExecCompConsultant in a somewhat tenuous or difficult position to be the judge of what is considered a material change to a draft of the report. Sometimes there could certainly be a legitimate reason for a change, but if it's simply the management does not like the answer and now they're trying to unduly influence or pressure the ExecCompConsultant to change that report obviously that gets to the kind of the professional integrity of the ExecCompConsultant. I've only had this happen once or possibly twice in the course of my career where I felt that this type of undue pressure or influence and did end up alerting the CompCo Chair that I felt that the management were trying to influence the outcome in an unhealthy way' (ExecCompConsultant: 4)

**4.3.18. RITG5:SQ3 – ‘Do you consider that any potential conflicts of interest inherent in CoyExecRemSpecialists being involved in top management remuneration are being satisfactorily addressed [Sub-coding: ‘COI/CoyExecRemSpecialists’]?’**

- COI/CoyExecRemSpecialists: ‘Whether that’s the HRD, as I think probably it typically is, or it might be the CoySec, both of whom I would hope are capable of wearing reasonably independent hats anyway, but difficult to get away from the fact that though they’re going to be an integral part of the management team’ (CoyExecRemSpecialist: 11)
- COI/CoyExecRemSpecialists: ‘Are conflicts of interest satisfactorily addressed? No! I’m not convinced conflicts are satisfactorily dealt with. It is a remarkably difficult thing to handle internally. A lot of the things they learn in HR are not necessarily ideal for securing objectivity, fairness, motivational in the face of executive influence. They are part of the business, so providing some sort of sanction is almost unfair and unreasonable’ (NED: 6)
- COI/CoyExecRemSpecialists: ‘L&G have a policy where they don’t particularly like ExecRemConsultants in the room where they’re talking to the NEDs, but they have no problem with the HRD/Head of Reward/CoySec coming along to take notes. And if we’re doing it right, and maybe we haven’t helped L&G understand that as well as we should have, we’re the only people of all of those who work for the RemCo Chair. All the rest work for the CEO, where they believe conflict exists. Bizarre position, from my perspective. Not my idea of a great day, listening to the same presentation eight times and taking notes, but the perception that the HRD is seen as more independent to advise the RemCo Chair is bizarre. We invariably do not get on particularly well with the CEO and are there to advise the RemCo Chair in the first place. Generally,

CoyExecRemSpecialists try to do a good job. Like in every profession, there's a mix' (ExecRemConsultant: 19)

- COI/CoyExecRemSpecialists: 'I think there's a huge conflict of interest between CoyExecRemSpecialists and top management pay. The CEO's their boss. There's no way around that. They need to do the job. They need to be able to bring their expertise internally to the party. A really good RemCo has really good ExecRemConsultants, and really good CoyExecRemSpecialists to present to them, and they make an informed decision. Everyone else is there to support the RemCo make good decisions. The RemCo should take into account the natural bias of a CoyExecRemSpecialist to make their boss happy' (ExecRemConsultant: 19)
- COI/CoyExecRemSpecialists: 'The CoyExecRemSpecialists team provides a useful function, and I think it can probably stray over the line very, very easily. It's a cultural interpreter; steer to the ExecRemConsultants. It can sometimes act as an important quality check. Very useful administration function. ExecRemConsultants need to pull an awful lot of information from the business. Initial/iterative drafting around the DRR. ExecRemConsultants have the benefit of having seen what's happened in their 50 other clients, or whatever. A General Counsel (or Company Secretary) inherently and easily manages conflict, and understands the importance of remaining independent' (CoyExecRemSpecialist: 11)
- COI/CoyExecRemSpecialists: The Company Secretary is more of a confidant to the Company Chair, whereas the HRD is more of a confidant to the CEO. That is a gross generalisation. Some internal executives can manage it [ie., COI] and won't stray over the line and I have no doubt

there will be others who can't. Some of these might be lawyers' (CoyExecRemSpecialist: 11)

- COI/CoyExecRemSpecialists: 'Quality/independence of HRD is variable. Some have objectivity and see themselves as having direct responsibility to the RemCo, whereas others are simply beholden to the CEO' (CoyExecRemSpecialist: 12)
- COI/CorpExecRemSpecialists: 'It does worry me a little bit from my experience having seen some companies where most of the number crunching and everything is done in-house. And I'm not sure it's had that much scrutiny from ExecRemConsultant' (CoyExecRemSpecialist: 3)
- COI/CoyExecRemSpecialists: 'CoyExecRemSpecialists are in a terribly difficult position, they can be, well, squeezed at both ends, if you like, and that's a very uncomfortable position to be in, and you know many of them do it very well, but it's quite a stressful environment, I should think. It can be' (ExecRemConsultant: 1)
- COI/CoyExecRemSpecialists: 'It's difficult for somebody who's an employee to walk away, but I still don't see why you can't be prepared to encourage people to challenge decisions. I think that's why we have come around to the idea of publishing pay ratios. Not name and shame. This is the difference, and let's start thinking about it... and you have these discussions. Particularly with the investor community' (ROO: 2)

- COI/CoyExecRemSpecialists: 'Perspective on CoyExecRemSpecialists: Very mixed I think: "Please don't ask us for a view (as opposed to simply cascading down policy selected), because that's not our job". If you have a CEO who wants to have his finger on everything then the role of the ExecRemConsultant is more reactive than proactive. Are Heads of Compensation & Benefits able to directly engage with the RemCo? The best ones can and the average ones probably not. When you've got a very strong, opinionated, dare I say, greedy, CEO, I think the job of an internal Head of Reward is nigh on impossible, actually. I don't envy their role' (ExecRemConsultant: 4)
- COI/CoyExecRemSpecialists: 'In the vast majority of cases the potential conflict doesn't become a natural conflict because of the way those individuals conduct themselves, but in the minority it can become a very significant issue. There is a responsibility on the ExecRemConsultant, the CoyExecRemSpecialist and the RemCo Chair because there is eventually a triangular relationship' (ExecRemConsultant: 3)
- COI/CoyExecRemSpecialists: 'I would say that in the vast majority of cases the CoyExecRemSpecialist team manages to act appropriately... whilst they might, as is understandable, put the management view... they will realise there is an appropriate boundary there and ultimately the ExecRemConsultant needs to provide independent advice. If the ExecRemConsultant is a good advisor, and I believe the vast majority are, they will take that at face value and ultimately give their advice as they see it' (ExecRemConsultant: 3)

- COI/CoyExecRemSpecialists: 'I don't really come across CoyExecRemSpecialists who have the same depth of expertise as ExecRemConsultants. They are still very dependent on ExecRemConsultants. My experience is that the people in these roles feel deeply conflicted and find it extremely hard' (City Lawyer: 3)
- COI/CoyExecRemSpecialists: 'A very good Reward Director will be able to give the rounded advice that an ExecRemConsultant can give, but frankly in my view I've only come across a handful of those' (NED: 1)
- COI/CoyExecRemSpecialists: 'Potentially in the meetings will be the RemCo Chair, potentially the senior CoyExecRemSpecialist and potentially also the ExecRemConsultant. The in-house Reward team has a role to play in the HR function at each company. There's an inherent conflict I guess to the extent they're involved in developing proposals for the RemCo because of pay of superiors, and potentially maybe some beneficial effect further down the line, but that's just recognised as part of the way things are set up in many big companies' (ROO: 4)
- COI/CoyExecRemSpecialists: 'I would think that it's a difficult role to play because there must be pressure probably from the ExecRemConsultants outside who are providing market data and from managers who are superior to them, to rather talk-up pay, I fear. Somebody in the company has to understand the market data, has to collate it, own it in-house. You can't rely entirely on the ExecRemConsultant for that' (ExecRemConsultant: 6)
- COI/CoyExecRemSpecialists: 'Need for accreditation of CoyExecRemSpecialist? I would have thought that a lot of what they would learn through the CIPD programmes would equip them to do this stuff' (ExecRemConsultant: 6)

- COI/CoyExecRemSpecialists: 'We find there is much more of a role for what you term in-house or internal reviews of culture. These have more to offer, they are underutilised. Their voice in the Boardroom and at senior executive level should be heard further. We have been presented with some examples of where poor practice and poor culture have been called out internally, as opposed to being called out through the use of an ExecRemConsultant, who may have otherwise been conflicted in some way. HR, CoySecs, Internal Audit are close to the issues in terms of understanding them and on occasion are able to exercise sufficient distance in order to correct potential problems' (ROO: 5)
- COI/CoyExecRemSpecialists: 'I certainly felt, and I think our General Counsel did as well, that our ExecRemConsultants were helping us protect our executive directors from themselves. We had a particularly bullying CEO. He had very strong views about his own worth' (CoyExecRemSpecialist: 5)
- COI/CoyExecRemSpecialists: 'On more than one occasion I was utterly dependent on ExecRemConsultants to help manage the situation. We also had a pretty inexperienced and, I have to say, rather weak RemCo Chair. So again the ExecRemConsultants are pretty critical in terms of ensuring we stayed on the straight and narrow. Is this the wrong thing, because I don't think we were intending to deviate from it, but to guide us with the benefit of their knowledge. I think there is a difficulty being an internal person in this thing' (CoyExecRemSpecialist: 5)
- COI/CoyExecRemSpecialists: 'You can't have nobody in your organisation, nor have a Compensation & Benefits Manager, who is not allowed, only talks to a certain level - or else they won't stay. They want exposure to the RemCo as well. Why would you just do it for middle management? You're going to get very second-rate people. I think it

requires certain toughness. I could easily see how the CEO could bully the internal staff into forcing a RemCo proposal that was possibly not objective enough in who it was benefitting, because I certainly saw someone who was trying to do it' (CoyExecRemSpecialist: 5)

- COI/CoyExecRemSpecialists: 'I think it boils down again to the quality and integrity of the people. In my case the RemCo Chair was very reliant on me for understanding what was in the mind of the Executive team, and I was in a very invidious position. I was one of the Executive team. I was trying to temper the demands of the CEO, but at the same time I was impacted personally by the results of whatever scheme was put in. So I wasn't independent any more than, nor was General Counsel, but you have to try and step outside of it and that's easier for some people than for others' (CoyExecRemSpecialist: 5)
- COI/CoyExecRemSpecialists: 'US practice varies widely; some do the right thing, others I would not really trust. Second level people who are more isolated from the reporting relationship, and if they secure the confidence of the CompCo are invited to join them for their deliberations... tends to be a marker that the CompCo has sufficient trust in the person concerned/values their input' (ExecCompConsultant: 1)
- COI/CoyExecRemSpecialists: 'In-house: You owe your allegiance to your employer. I have come across Compensation & Benefits Managers who have taken a pretty independent line on things. They know they've got to keep the CEO happy, but they don't hold back in expressing their views on remuneration matters and, of course, they provide tremendous support to the NEDs on the RemCo' (City Lawyer: 4)

- COI/CoyExecRemSpecialists: ‘There is a most decided potential conflict of interest and I meet it all of the time. Pleasing the CEO can be their guiding star... colours the people then... the extent that’s career limiting. I’ve always found HR people very respectful and happy to rely on you or position you in a way which is independent. I avoid joint reports if I possibly can’ (ExecRemConsultant: 8)
- COI/CoyExecRemSpecialists: ‘There’s not really any current process to challenge whether I am biasing the advice that they give me. In our review of remuneration policy I did all the NED interviews and consolidated the feedback, and so I think there is a lot of that between the RemCo and company and me’ (CoyExecRemSpecialist: 7)
- COI/CoyExecRemSpecialists: ‘I don’t believe internal people are very good at setting external level compensation. There are too many conflicts of interest. So I think they are there to help people, not be part of the process. They work for the RemCo Chair in helping him do his job, rather than they’re working for the CEO doing his job’ (CoyExecRemSpecialist: 8)
- COI/CoyExecRemSpecialists: ‘One of my clients said to me that a business with an HR function is an unhappy business and that it is far better that the directors, who run the business, deal with all the responsibilities which, in other organisations, are locked away inside HR. I’ve got a lot of sympathy with that’ (ExecRemConsultant: 12)
- COI/CoyExecRemSpecialists: ‘Where management lead from the top I see no difficulty. Where management lacks interest and the HRD is seen as being the trade unionist on behalf of management there is potential conflict (an internal Oliver, always asking for more). I think that RemCos have enough nous to see when the in-house pay specialist is doing

nothing more than a ratcheting job in an attempt to increase pay. Now we have the binding policy vote, I see a lot less of this and the conflict is disappearing. If we go back to the last century, it was perfectly normal to have the majority of your clients with an upper quartile remuneration policy. That disappeared in 2002; the norm is now the median. Are there professional conflicts? Yes, of course there are, but I think they are so visible to RemCos. Anyway, as an ExecRemConsultant I have stepped down from particular appointments because I am unhappy, for example, to endorse irrelevant benchmarking comparisons provided by other consultants' r(ExecRemConsultant: 12)

- COI/CoyExecRemSpecialists: 'There is a conflict if ever there was one in serving the RemCo and being employed by a person whose pay the RemCo decides on. HRD is merely the CEO's key lieutenant... not expect the HRD to be independent... look to the Head of Compensation & Benefits to hold the ring (with the ExecRemConsultant being an additional point of challenge). In smaller companies the CoySec may have an important role to play and can have a more independent attitude than some other in-house staff' (ExecRemConsultant: 11)
- COI/CoyExecRemSpecialists: 'From my experience, I think quite often the CoyExecRemSpecialists would have sufficient independence of mind... to discuss things frankly with ExecRemConsultants (perhaps not the Board). One could have fairly frank discussions with them. Discussions between in-house specialists and the RemCo? It depends on political and interpersonal skills of the CoyExecRemSpecialist' (ExecRemConsultant: 13)

- COI/CoyExecRemSpecialists: ‘An ExecRemConsultant, if he or she is sufficiently high-minded, can always say goodbye. But the CoyExecRemSpecialist only does that in rather extreme circumstances. And it’s taking a rather big risk. The likelihood of their giving unbiased advice is dependent upon the probity of those to whom the advice is given. The pressures in this area are such that I have a feeling they wouldn’t be allowed a great deal of latitude’ (ExecRemConsultant: 13)
- COI/CoyExecRemSpecialists: ‘I think you would have to be pretty strong minded as a CoyExecRemSpecialist. The extent to which the RemCo members are truly independent... even they do not want to be in a position where they have to seek a different position because they’re too often run foul of this point. An American making the transition to the way we do things in the UK would find it very difficult, if not impossible; and vice versa. America is a country of lawyers and the rules are very carefully drafted – whereas in the UK we don’t have such a high respect for lawyers and therefore we look for a little more flexibility’ (ExecRemConsultant: 13)
- COI/CoyExecRemSpecialists: ‘They are confronted on a day-to-day basis, with CEOs and CFOs earning ten times as much as them, who rule the company. They’ve got to live with it every day. So they inherently have a desire to please the most senior people... that’s going to give the answer the CEO or CFO wants’ (CoyExecRemSpecialist: 4)
- COI/CoyExecRemSpecialists: ‘There are conflicts that arise, and conflicts are... can be very helpful in highlighting the issues that really need to be discussed... I’ve found that good CoyExecRemSpecialists handle these things very professionally. It comes down to the professional approach and finding that is arguably very important’ (NED: 2)

- COI/CoyExecRemSpecialists: 'It depends on whether one seeks to make out that CoyExecRemSpecialists really are independent. Almost by definition internal advisers are not independent. Quite a lot of their work entails independence not being important anyway, but obviously critical for pay quantum and target setting for incentives. It is unusual to come across an HRD who is purely fighting for the CEO. CoyExecRemSpecialists have one reporting line to the CEO and the other to the RemCo Chair' (ExecRemConsultant: 14)
- COI/CoyExecRemSpecialists: 'There have been some calls to increase the level of transparency in this area. RemCo trying to listen to internal and ExecRemConsultants... opposing, almost competing views. In-house will put forward the view of management' (ROO: 8)
- COI/CoyExecRemSpecialists: 'CoyExecRemSpecialists: conflicted is not the right word perhaps. It is, kind of, what is expected. That's the way the role is seen' (ROO: 8)
- COI/CoyExecRemSpecialists: 'I think it's inherently going to be quite difficult to get very objective advice where you've got a management team who have got an agenda' (CoyExecRemSpecialist: 5)
- COI/CoyExecRemSpecialists: 'And that probably just goes to the importance of selecting the right person to do the job, asking how they have been vetted, how they've worked out those tensions within the business' (City Lawyer: 2)

- COI/CoyExecRemSpecialists: ‘The same issues of objectivity and independence of thinking, integrity and competence they’re the same characteristics that mark a great internal HRD or a great internal Head of Reward. US HRDs are more impressive than anywhere else; the UK is in the middle. Continental European HRDs can be absolute slaves to their CEOs’ (ExecRemConsultant: 4)
- COI/CoyExecRemSpecialists: ‘US HRD: “I’d like it noted. I don’t actually agree with the CEO”. Yes, you do hear that in America’ (ExecRemConsultant: 4)
- COI/CoyExecRemSpecialists: ‘CoyExecSpecialists are conflicted at lots of different levels, at lots of different times. It’s not a simple structure. It’s nothing to do with the reporting structure that makes it in a business. They are constantly being pursued by management within their structure, whether the CEO or others’ (NED: 2)
- COI/CoyExecRemSpecialists: ‘I’ve not been aware of conflicts of interest type matters arising with these people either sort of internally or in their relationship with external advisors. None of the ExecRemConsultants I know would brook any interference from that source any more than anywhere else. I’ve come across some extremely good people in the CoyExecRemSpecialist role. The in-house person is there all of the time and NEDs in the RemCo come and go: so corporate memory and longer-term perspective’ (City Lawyer: 4)
- COI/CoyExecRemSpecialists: ‘I think in practical reality it depends on the company. I can think of one HRD whose sole concern is to do what’s right for the company and I can think of other HRDs whose guiding light is to keep the CEO happy’ (ExecRemConsultant: 8)

- COI/CoyExecRemSpecialists: 'I think the potential conflict of interest is addressed primarily through the judgement and morals of the individual who's in the role rather than anything else. The place where I most frequently see a conflict is around target setting for executives' (CoyExecRemSpecialist: 7)
- COI/CoyExecRemSpecialists: 'When you're the internal, you have one client and that's it. Whereas if you're in consultancy you have multiple clients and it's hard if you lose one but it's a feather in your cap if you're working with a good firm where you explain how your assignment was terminated. I think internal specialists have pressure from the CEO and business unit executives' (ExecCompConsultant: 2)
- COI/CoyExecRemSpecialists: 'HRD is the Reward Director's boss, often acts as shop steward for the executive management and is quite clearly lobbying and playing a role and pushing the Head of Reward, pushing us, and pushing the RemCo to do one thing. It's quite obvious what they're doing, and everyone accepts their role' (ExecRemConsultant: 17)
- COI/CoyExecRemSpecialists: 'Some HRDs fall into that category as well. You could try to have the Reward function, a bit like the Company Secretary reporting into the RemCo or CoySec, but that's been tried and doesn't work, so you end up with non-joined-up HR practices between the executive directors and the rest of the firm. You just have to acknowledge the conflicts and manage them, and use the ExecRemConsultants to help do that' (ExecRemConsultant: 17)
- COI/CoyExecRemSpecialists: 'The NEDs' biggest problem was a CEO who was greedy, if you want to put it like that. And confrontational about that. And sometimes internal resources just don't help you with that. Because a CoyExecRemSpecialist can be compromised' (NED: 4)

- COI/CoyExecRemSpecialists: 'Some smaller companies are happy with the internal person... you've got a CEO who's not pushing them too hard, and an internal resource who knows what they are doing. And some consultants have gone and done that role. HRD is conflicted on pay, and a lot of them don't understand pay. CoyExecRemSpecialists can connect with the rest of the organisation' (NED: 4)
- COI/CoyExecRemSpecialists: 'It is of course a conflict to be recognised. Important that management have a good grip on executive reward. The RemCo cannot do so and cannot have any idea of process and how their decisions work through the organisation. Executive Reward that is divorced from the rest of the organisation is not healthy generally. RemCo needs expert internal support. Report two ways. Important for ExecRemConsultants to work closely with the CoyExecRemSpecialists. Designing incentive plans - need to understand what the recipients think of it' (ExecRemConsultant: 16)
- COI/CoyExecRemSpecialists: 'Whether that's the HRD, as I think probably it typically is, where it might be the Company Secretary, both of whom I would hope are capable of wearing reasonably independent hats anyway but difficult to get away from the fact that they're going to be an integral part of the management team' (CoyExecRemSpecialist: 11)
- USCOI/CoyExecRemSpecialists: 'I actually feel good and maybe sometimes actually relieved when management will say to me that they understand the governance world we are living in and need to operate in, and understand and respect the fact that we as the CompCo's ExecCompConsultant and need to be true to that reporting relationship, even if it means we are going to end up potentially disagreeing or providing a piece of alternative advice to what management feels is the better action' (ExecCompConsultant: 4)

- COI/CoyExecRemSpecialists: ‘HRD is typically not closely involved in the process because of conflicts. A good HR person will participate in short-term and long-term incentives but will be governed by the remuneration process and therefore steps to one side, but that doesn’t prevent them from being heavily involved anyway. The CFO is fundamental to the choice of performance measures and goals – extremely difficult for an ExecRemConsultant to set goals in the face of opposition from the Finance function. CEO is the key individual around whom all this dialogue takes place. The RemCo cannot afford to irritate the CEO for no good reason, and cutting CEO’s pay is a reason. The RemCo is conservative about making decisions which they feel threaten the stability of the CEO’s position with the company’ (ExecRemConsultant: 15)
- COI/CoyExecRemSpecialists: ‘The problem with in-house people is that NEDs do not trust them entirely. A good CoyExecRemSpecialist is just like an ExecRemConsultant – a bit like a consultant, but without the independence. Like consultants, but stripped of their independence. It comes back to relationships. Disputes about pay get in the way of good relationships with the Board who fall over backwards not to have confrontation with the CEO about their pay’ (RemCoChair - NED: 4)
- COI/CoyExecRemSpecialists: ‘In a small minority of cases that relationship [CoyExecRemSpecialist with ExecRemConsultant] does not function as well as it should, where you have a particularly strong or difficult individual in the in-house role, you cease to influence the dynamic of pay setting for the senior individuals, to a greater extent. It involves the failure of at least one, if not both, of the other two sides in that triangle for that view to prevail’ (ExecRemConsultant: 3)

### **Appendix 3**

**IALS ICGFREL LLM Dissertation (September 2014)**

**[Please note that the text of the LLM dissertation contained in this Appendix 3 has suffered minor formatting issues in the process of the document being downloaded from SAS Online Portal.]**

**Institute of Advanced Legal Studies**

School of Advanced Study

University of London

Calvin Jackson

**DO THE BENEFITS OF THE CURRENT UK  
REGULATORY/COMPLIANCE REGIME  
REGARDING REMUNERATION COMMITTEES'  
DETERMINATION OF EXECUTIVE PAY AND ITS  
DISCLOSURE JUSTIFY THE OBLIGATIONS  
IMPOSED?**

**Word Count: 14,992.**

**LLM 2013 – 2014**

**International Corporate Governance, Financial  
Regulation and Economic Law (ICGFREL)**

**DO THE BENEFITS OF THE CURRENT UK  
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IMPOSED?**

**This paper is in fulfilment of part of the  
requirements of the ICGFREL LLM**

**Institute of Advanced Legal Studies**

**University of London**

**August 2014**

## STATEMENT OF AUTHORSHIP FORM

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Dissertation: "DO THE BENEFITS OF THE CURRENT UK REGULATORY/COMPLIANCE REGIME REGARDING REMUNERATION COMMITTEES' DETERMINATION OF EXECUTIVE PAY AND ITS DISCLOSURE JUSTIFY THE OBLIGATIONS IMPOSED?"

Name of Supervisor: Professor Klint Alexander, Visiting Lecturer at IALS

Due date: 2<sup>nd</sup> September 2014

**I declare that this dissertation is my own work and that all sources quoted, paraphrased or otherwise referred to are acknowledged in the text, as well as in the 'Bibliography'. My previously published work is referred to in the same way as that of the other works cited. Furthermore, I have checked my work using the Turnitin software prior to submission.**

Signature: \_\_\_\_\_

Date submitted: \_\_\_\_\_

**Word count (excluding the Title pages (i.e., up to and including page [ii]), plus the Statement of Authorship Form (i.e., page [iii]) and the Bibliography: 14,992.**

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**Please note that independent professional advice should be obtained before specific action is taken in reliance on the contents of this paper.**

## ABSTRACT

*This paper examines the applicable regulatory/compliance regime concerning RCs' determination of executive pay and its disclosure. It hypothesises that although the results of UK regulation have been very beneficial overall (i.e., the benefits do indeed justify the obligations imposed), particular UK corporate governance failures regarding executive pay have arisen due to the combination of the applicable regulatory regime with other factors. It finds that in respect of accountability and transparency very considerable progress has been made; however, regarding the pay-performance linkage in particular much remains to be done concerning 'rewards for failure', the need for a longer-term time horizon and LTI design generally.*

*Although this paper concludes that its hypothesis is correct, six recommendations are made for future improvement regarding (i) regulation, (ii) institutional shareholders, (iii) remuneration committees, (iv) remuneration committee advisors/in-house executive compensation HR specialists, (v) remuneration package design, and (vi) corporate ethics/behaviour. The goal of improvement is well worth striving for because corporate governance failure on executive pay harms the concept of responsible capitalism and the success of companies on which UK jobs and taxes depend.*

*Key words. executive pay; pay regulation; pay disclosure; 'rewards for failure': remuneration committees; remuneration consultants; institutional shareholders; corporate ethics.*

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## LIST OF ABBREVIATIONS

ABI	Association of British Insurers
AGM	Annual General Meeting
BIS	Department of Business, Innovation and Skills
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRD	Capital Requirements Directive
DB	Defined Benefit
DC	Defined Contribution
DFA	Dodd-Frank Wall Street Reform and Consumer Protection Act 2010
DRR	Directors' Remuneration Report
EC	European Commission
ED	Executive Director
EPS	Earnings Per Share
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSA	Financial Services Authority
GFC	Global Financial Crisis 2007/2008
HPC	High Pay Commission
ICGN	International Corporate Governance Network
IPPR	Institute for Public Policy Research

ISS	Institutional Shareholder Services
IVIS	Institutional Voting Investor Services
LTA	Lifetime Allowance
LTI	Long-term Incentive
NAPF	National Association of Pension Funds
NED	Non-executive Director
OECD	Organisation for Economic Co-operation and Development
PIRC	Pensions Investment Research Consultancy
RC	Remuneration Committee
RREV	Research Recommendations Electronic Voting
SOX	Sarbanes-Oxley Act 2002
SRD	Shareholder Rights Directive
STI	Short-term Incentive
SYSC	Senior Management Arrangements, Systems and Controls
TSR	Total Shareholder Return
TW	Towers Watson
UCITS	Undertakings for the Collective Investment in Transferable Securities
UKCGC	UK Corporate Governance Code
UKSC	UK Stewardship Code
VC	Voluntary Code of Conduct for Remuneration Consultants
WW	Watson Wyatt

## CHAPTER 1

### 1. INTRODUCTION AND SCOPE

Executive pay in the UK excites the interest of academics, politicians, regulators, the media, company investors/institutional shareholders, business leaders, the working population and the country at large. The rise in UK executive pay levels since the 1980s is widely condemned by most such groups – as being out of line with pay growth amongst the workforce generally and not being appropriately linked to performance (so-called ‘rewards for failure’).

Although this paper covers two aspects of UK executive pay in particular – namely, the applicable regulatory/compliance regime regarding RCs’ determination of executive pay and its disclosure – in order to provide the appropriate setting for review and recommendations for future reform it necessarily includes certain other executive pay areas. The context within which the various aspects are reviewed and considered is ‘agency theory’, and whether benefits arising from regulation justify the obligations imposed.

In the UK the process by which RCs determine executive pay (and its subsequent disclosure) is highly regulated via legislation, listing rules and self-regulation contained in institutional investor codes and guidelines. However (with the exception of certain financial services – specific aspects), board/senior executive pay is not specifically regulated on matters such as basic salary levels, STIs and LTIs, together with the size/level of the remuneration package overall. Having said this, the direction since 1980 has been for publicly-quoted companies to be subject to very considerable regulatory and other constraints on executive remuneration packages. The charge was originally led by institutional shareholders, but detailed legislation has followed in its wake.

[1]

Accordingly, the UK regime is not one where RCs can simply pay what they want to EDs (and senior management) and without disclosure to and, indeed, the voting approval of shareholders in certain cases. For example, LTIs using newly-issued share capital have always required shareholder approval and since 2002 there has been a shareholders' annual advisory vote on the DRR. Annual election for directors were introduced in 2010 and now a binding vote has been added for remuneration policy (the advisory vote is 'backwards looking', whereas the binding vote 'looks forward'). So the UK is a highly regulated environment, yet criticisms of executive pay grow apace.

This paper hypothesises that although the results of regulation have been very beneficial overall (i.e., the benefits do indeed justify the obligations imposed – with the important caveat that certain recommended future improvements are set out), particular UK corporate governance failures regarding executive pay have arisen due to the combination of the applicable regulatory regime with other factors. Brian Main's 2007 publications show the challenges entailed in RCs original responsibility for policing the probity of the pay determination process now being supplemented by their far more demanding role as key players in the strategic human resource management of companies, together with the influence of institutional shareholders channelling RCs down 'tramlines' of remuneration package design (which can replicate unwelcome aspects of fund managers' own incentive arrangements).<sup>1, 2</sup> Top FTSE boardroom/executive pay has massively increased (but so has the size, complexity and globality of companies), whilst the motivational psychology of incentive pay has been insufficiently taken into account.

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<sup>1</sup> Brian Main, Calvin Jackson, John Pymm and Vicky Wright 'The Remuneration Committee and Strategic Human Resource Management' (2007) *Corporate Governance: An International Review* 16 (3) 235-238 Accessed 12<sup>th</sup> June 2014.

<sup>2</sup> Brian Main, Calvin Jackson, John Pymm and Vicky Wright 'Questioning the Remuneration Committee Process' (2007) Working Paper  
<<http://homepages.ed.ac.uk/mainbg/Files/questioning%20the%20remuneration%20committee%20process%200-%20%2021%20feb%202007.pdf>> Accessed 12<sup>th</sup> June 2014.

RCs have struggled in effectively discharging the duties they are now charged to perform. The way in which RCs operate, the tasks they need to carry out and the stakeholders they perform for must satisfy, have all combined to make RCs' role far more demanding and, some would argue, almost impossible to perform in a way that successfully reduces criticisms of executive pay.

This paper concludes its hypothesis is correct. UK pay regulation over the past 35 years has been greatly beneficial and justifies the obligations imposed. On accountability and transparency 'UK PLC' has seen very considerable corporate governance improvements; however, in respect of performance-linkage in particular much remains to be done regarding 'rewards for failure', the need for a longer-term time horizon and LTI design generally.

Set out in this paper are six recommendations for future improvement concerning (i) regulation, (ii) institutional shareholders, (iii) remuneration committees, (iv) remuneration committee advisors/in-house executive compensation HR specialists, (v) remuneration package design, and (vi) corporate ethics/behaviour. It seeks to be the first step in a process requiring further work to be undertaken. The goal is well worth striving for because corporate governance failure on executive pay aspects harms the concept of responsible capitalism and the success of companies on which UK jobs and taxes depend.

Chapter 2 of this paper reviews the UK regulatory framework for executive pay regulation – it covers both RCs' determination of executive pay and the subsequent disclosure of pay/remuneration policies and packages. Chapter 3 deals with the comparative perspective, looking at the position respectively in the USA, EU, Germany, France and Japan. The paper then continues with Chapter 4's findings and discussion arising out of the material in Chapters 2 and 3, respectively. Finally, Chapter 5 contains conclusions and six recommendations based on the foregoing review and analysis.

## CHAPTER 2

### 2. UK REGULATORY FRAMEWORK

#### 2.1 Agency issues

Brian Main states: ‘the problems of creating incentives for the top managers of an enterprise where ownership is widely dispersed (...) gained the label of separation of “ownership from control”.’<sup>3</sup> He cites Adam Smith<sup>4</sup> in respect of the former proposition and Adolf Berle and Gardiner Means regarding the latter<sup>5</sup>, and states that: ‘the dominant theoretical approach to the modern version of this problem is agency theory, which points to the use of an appropriately designed reward mechanism as a way of aligning the interests of the directors with those of the owners’<sup>6</sup> – the first aspect being attributed to Michael Jensen and William Meckling<sup>7</sup> and the second to Kevin Murphy.<sup>8</sup> Main cites<sup>9</sup> Jensen and Murphy: ‘agency theory predicts an optimal contract will tie the agent’s expected utility to the principal’s worth; therefore agency theory predicts that CEO compensation policies will depend on changes in shareholder wealth’.<sup>10</sup>

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<sup>3</sup> Main, note 1, 3.

<sup>4</sup> Adam Smith *An Inquiry Into the Nature and Causes of the Wealth of Nations* (The University of Chicago, 1976), 264.

<sup>5</sup> Adolf Berle and Gardiner Means *The Modern Corporation and Private Property* (Macmillan Co, 1932), 25.

<sup>6</sup> Main, note 3.

<sup>7</sup> Michael Jensen and William Meckling ‘Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure’ (1976) *Journal of Financial Economics*, 3 (4) 305 – 360.

<sup>8</sup> Kevin Murphy ‘Executive Compensation’ in Orley Ashenfelter and David Card (eds.) *Handbook of Labour Economics* (McGraw–Hill, 1999).

<sup>9</sup> Main, note 3.

<sup>10</sup> Michael Jensen and Kevin Murphy ‘Performance Pay and Top-Management Incentives’ (1990) *Journal of Political Economy*, 98 (2) 225 – 264.

Ian Gregory-Smith states: 'the extensive academic literature on the growth of executive compensation has tended to polarise around one of two positions: the rents-capture view and the optimal contracting approach'<sup>11</sup>. He cites Lucian Bebchuk<sup>12</sup> and Jesse Fried<sup>13</sup> as propounding the former position, stating: 'CEOs can subvert the compensation-setting process through their 'capture' of the remuneration committee', which can only be controlled by shareholders via 'withholding consent to egregious proposals and/or by constraining these proposals in anticipation of a stockholder vote'.<sup>14</sup> In contrast, Gregory-Smith states: 'the optimal contracting view suggests that CEO compensation is determined by the operation of the market for managerial talent'<sup>15</sup>. He cites Xavier Gabaix in respect of the latter<sup>16</sup> – noting that Gabaix's research work carried out both before and since the GFC comes to the same conclusion.<sup>17</sup>

There are here, therefore, two very different views of executive pay: the rents-capture theory holds that shareholders can usefully employ their votes to control managers, whereas the optimal contracting view propounds that the market determines pay levels and shareholder involvement can be 'at best meddlesome and at worst disruptive'.<sup>18</sup>

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<sup>11</sup> Ian Gregory-Smith, Steve Thompson and Peter Wright 'Say or Pay in the UK: Modest effect, Even After the Crisis' (*VOX EU* 24<sup>th</sup> March 2014) <<http://www.voxeu.org/article/controlling-uk-executive-pay>> Accessed 27<sup>th</sup> May 2014.

<sup>12</sup> Lucian Bebchuk and Jesse Fried 'Executive Compensation as an Agency Problem' (2003) *Journal of Economic Perspectives*, 17 (3) 71 – 92.

<sup>13</sup> Lucian Bebchuk and Jesse Fried *Pay without Performance: The Unfulfilled Promise of Executive Compensation* (Harvard University Press, 2004).

<sup>14</sup> Gregory-Smith, note 11.

<sup>15</sup> Gregory-Smith, note 11.

<sup>16</sup> Xavier Gabaix and Augustin Landier 'Why has CEO Pay Increased so Much?' (2006) National Bureau of Economic Research Working Papers <<http://www.nber.org/papers/w12365>> Accessed 17<sup>th</sup> June 2014.

<sup>17</sup> Xavier Gabaix, Augustin Landier and Julien Sauvagnat 'CEO Pay and Firm Size: An Update After the Crisis' (February 2014) *The Economic Journal*, 124 (574), F40–F59.

<sup>18</sup> Gregory-Smith, note 11.

Gregory-Smith's finding is that the UK's original say-on-pay legislation (i.e., an annual advisory vote of shareholders – on the DRR for the previous financial year) had 'a relatively modest effect on executive pay.' Until this year's AGM Season, US and UK companies were on the same playing field in that under both regimes there was an annual backwards looking advisory vote. However, the UK has now moved to a binding vote on remuneration policy (looking forward three years, in normal circumstances), plus continuing with a non-binding vote looking back on how remuneration policy has actually been implemented. Presumably, rents-capture proponents would view the new UK position as being a significant improvement - with 'optimal contracts' devotees maintaining it will make matters worse.

## **2.2 UK executive pay regulation: 1979 -2013**

In 1979 a Conservative government came into power, heralding 'Thatcher's Britain'. The subsequent 35 years can be split into three periods: 1979 – 1992, 1992 – 2003 and 2003 – 2014. The first, 1979 – 1992, was a sort of 'pre-lapsarian world' before the Cadbury Report's (1992) Code of Best Practice 'comply or explain' regime.<sup>19</sup> The middle period, 1992 – 2003, saw the Greenbury (1995)<sup>20</sup> and Hampel (1998)<sup>21</sup> Reports on directors' pay and corporate governance, respectively – with listed company directors' pay disclosure requirements introduced in 1995 and the introduction in 2002 of the annual advisory vote on the DRR, then the Higgs Report (2003) on NEDs.<sup>22</sup>

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<sup>19</sup> The Cadbury Report 'Report of the Committee on the Financial Aspects of Corporate Governance' (Gee Publishing, 1992).

<sup>20</sup> The Greenbury Report 'Report of a Study Group Chaired by Sir Richard Greenbury' (Gee Publishing, 1995).

<sup>21</sup> The Hampel Report 'Committee on Corporate Governance' (Gee Publishing, 1998).

<sup>22</sup> The Higgs Review 'Review of the Role and Effectiveness of Non-executive Directors' (2003) ([www.dti.gov.uk/cld/non\\_exec\\_review](http://www.dti.gov.uk/cld/non_exec_review)).

The final period, 2003 – 2014, covers the GFC, the Walker Review<sup>23</sup> (2009), the FSA Remuneration Code<sup>24</sup> (first issued in 2009) and the binding vote on remuneration policy introduced for this year's AGM Season.

The 35-year period has seen the process by which executive pay is determined by RCs, and its disclosure, move from very modest disclosure stipulated in the Companies Acts, formal RC structures being in place in only a minority of companies, plus self-regulation via institutional shareholder guidelines and listing rule requirements, to the current position where disclosure of pay now takes the form of a 'single overall figure' for directors' remuneration, RCs being universally in place, plus corporate governance codes and listing rules. There are additionally EU remuneration rules (particularly those applicable to the financial services sector), together with the full panoply of institutional shareholder guidelines (e.g., the ABI<sup>25</sup>, NAPF<sup>26</sup>, PIRC<sup>27</sup> and IVIS/RREV<sup>28</sup> - the Investment Affairs Division of the ABI, covering remuneration guidelines, has recently been transferred to the Investment Management Association, but for the purposes of this paper all references to the ABI's remuneration guidelines will continue to be referred to as ABI).

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<sup>23</sup> The Walker Review 'A Review of Corporate Governance in UK Banks and Other Financial Industry Entities' (2009) <[http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/walker\\_review\\_information.htm](http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/walker_review_information.htm)>.

<sup>24</sup> The FSA Remuneration Code (2009) [www.fca.org.uk](http://www.fca.org.uk).

<sup>25</sup> ABI 'Principles of Executive Remuneration' (2013) <<https://www.ivis.co.uk/guidelines>> Accessed 19<sup>th</sup> June 2014.

<sup>26</sup> NAPF 'Corporate Policy and Voting Guidelines' (2013) <[https://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0352\\_%20NAPF\\_corp\\_gov](https://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0352_%20NAPF_corp_gov)> Accessed 19<sup>th</sup> June 2014.

<sup>27</sup> PIRC 'UK Shareholder Voting Guidelines' (2013) <<https://www.pirc.co.uk>> Accessed 19<sup>th</sup> June 2014.

<sup>28</sup> RREV 'UK Remuneration Committee Guidance' (2013) <<https://www.issgovernance.com/files/ISSRREV2013UKRemunerationGuidance.pdf>> Accessed 19<sup>th</sup> June 2014 and NAPF 'Corporate Governance Policies and Voting Guidelines' (2013) <<https://www.napf.co.uk/PolicyandResearch/DocumentLibrary/-/Media/Policy/Documents/0277corporategovernancepolicyandvotingguidelinesonNAPFdocument.ashx>> Accessed 19<sup>th</sup> June 2014.

As stated by Main in 2007: '[W]hile it is true to say that top executive pay remains unregulated in the UK, the same cannot be said for the process by which it is determined. The practices and procedures of the now near universal remuneration committees are carefully prescribed in self-regulating codes and institutional guidelines'.<sup>29</sup> This was finessed by Peter King: 'In the UK, there is no statutory limit on, or prescribed structure for, remuneration for executive directors (save that certain financial institutions are subject to the CRD and FSA Remuneration Code)'.<sup>30</sup>

Instead, companies are required to adhere to the UKCGC/UKSC 'comply or explain' regime. There are also legislative requirements on disclosure; for example, section 420 (1) of the Companies Act 2006 and the report disclosure requirements set out in section 422A of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 SI 2013/1981.

The influence of institutional shareholders on UK executive pay package structure and determination remains very strong. Main stated in 2007: 'what truly distinguishes UK arrangements from those in the USA is the way that British institutional investors have been prepared to set about influencing the conduct (as opposed to the structure) of the committee'.<sup>31</sup> They continue to be prepared to 'red top' and vote against LTIs that do not conform to their guidelines regarding quantum, share dilution and performance measures. This has been ongoing for the past 35 years, reinforced by the introduction of the UKSC in 2011.<sup>32</sup>

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<sup>29</sup> Main, note 2,2.

<sup>30</sup> Peter King, Holly Gregory, Lauren Pau and Rebecca Grapsas 'Disclosure of Executive Remuneration in the UK: Recent Developments and US Comparison' (2012) < [www.practicallaw.com/corpgov-mjg](http://www.practicallaw.com/corpgov-mjg) > Accessed 12<sup>th</sup> June 2014.

<sup>31</sup> Main, note 2, 5.

<sup>32</sup> UKSC <<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship>> Accessed 5<sup>th</sup> June 2014.

This paper addresses the executive pay/corporate governance of companies with a premium listing (most other quoted companies do in fact adhere to a greater or lesser extent with the relevant regime). ‘Executive pay’ refers to the individual pay components (e.g., basic salary, STI (annual bonus paid, LTI and pensions) and remuneration packages overall of EDs together with their direct reports (usually comprising the ‘Operating Board’ of publicly-quoted companies – for example, CEO, CFO, Business Heads, HR Director and General Counsel/Group Secretary). The Chairman and NEDs are also included, albeit that UK practice is broadly to pay such directors by way of a straight fee (as opposed to participation in STIs and LTIs or pension arrangements).

This paper focuses on London premium listed companies generally (i.e., it covers the full spectrum of industry sectors), but there is recognition of the fact that certain financial services ones are also covered by particular EU legislation (e.g., CRD IV and UCITS V) and/or the FCA Remuneration Code.

Any comparative international perspective of executive pay needs to take account of the differences between unitary board structures (e.g., USA and UK) and dual ones (e.g., Germany, Switzerland and Netherlands). It must also be noted that, although two territories may operate say- on-pay advisory votes (e.g., USA and UK) what is actually put to shareholders for their vote will differ significantly (e.g., the directors/senior executives in the population covered differs between the UK – EDs and NEDs – and USA – CEO, CFO and three most highly paid executive officers, plus outside directors). More detailed disclosure requirements can also apply to certain financial services companies (e.g., the ‘banded’ pay disclosures for ‘high end’ staff). The context is that despite the UK executive pay regulatory regime (including the UKCGC<sup>33</sup>/UKSC and financial services special provisions), there remains strong criticism.

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<sup>33</sup> UKCGC (2012) <[www.frc.org.UK/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx](http://www.frc.org.UK/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx)> Accessed 5<sup>th</sup> June 2014. (Note: although the UKCGC does not have legal force, breach of ‘comply or explain’ could well amount to an infringement of the Listing Rules, with various sanctions attached <<https://fsahandbook.info/FSA/html/handbook/LR/918>> Accessed 5<sup>th</sup> June 2014).

### **2.2.1. Review: 1979 – 1992**

ED remuneration packages in 1979 were characterised by long notice periods (three years' salary plus benefits was the norm, compared now to one year's basic salary and benefits), modest STI and LTI opportunity, but 'gold-plated' DB pension arrangements (delivering two-thirds of final salary, after 20 years' service). The remuneration package focused on executive security, with relatively little variable pay linked to performance. This is hardly surprising, tax rates were high so it made sense to major on tax-approved pension arrangements. Today, the variable pay components of the package make up the majority of its value and DB pension provision for new recruits is rare.

In the mid-nineteen eighties, institutional shareholders addressed the dramatic growth in LTI provision following the 1984 enactment of tax-favoured Inland Revenue approved share option schemes. Such arrangements are put to shareholders for approval – with strict limits on potential dilution, and guidelines on the size of LTI awards expressed as a multiple of salary (valued at the date of grant). The relevant guidelines were initially simple (for example, performance conditions governing the exercise of share options were not introduced until 1986).

RCs were still a nascent feature in UK companies and the disclosure of remuneration packages was skeletal (ie by anonymous 'bands', rather than on an individual director basis). There was a level of informality and lack of structure around the determination and disclosure of board/executive pay that seems extraordinary today. However, this was not to last. The Conservative government's privatisation of utilities, coupled with strong stock market performance in the late 1980s/early 1990s, led to a furore over 'windfall gains' arising from tax-favoured executive share options. Worse than this though was the increasing lack of investor confidence in the honesty and accountability of listed companies, due to the sudden failure of Coloroll and Polly Peck. This led to the establishment of the Cadbury Committee (which then had to contend with BCCI and Maxwell).

### 2.2.2. Review: 1992 – 2003

Cadbury's Code of Best Practice, which introduced the 'comply or explain' regime, set the scene for board accountability to shareholders on pay matters – with recommendations on EDs' contracts not exceeding three years, disclosure of directors' total emoluments (including pensions and LTIs) and pay being determined by RCs 'made up wholly or mainly of non-executive directors.'<sup>34</sup> This is modern executive pay in recognisable form – incorporated originally (1992) into the Combined Code and now its successor the UKCGC.

Companies established RCs and appointed remuneration consultants to provide pay data and advise on the design and introduction of STIs and LTIs. In 2009 remuneration consultants worked with Walker to produce the VC.<sup>35</sup> Much has been written about the supposedly malign, Svengali-like influence of remuneration consultants – with alleged 'ratcheting up' of pay levels caused by inappropriate pay benchmarking and promoting incentive schemes designed to 'reward for failure'. Warren Buffett in particular has criticised remuneration consultants in the US.<sup>36</sup>

As pointed out in the VC though: '(...) it is important to clarify the role that executive remuneration consultants fulfil. Their role is to provide advice and information which they believe to be appropriate and in the best interests of the company (...) the role of consultants is not to make decisions'.<sup>37</sup> In other words, remuneration consultants provide information and advice to RCs (and

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<sup>34</sup> The Cadbury Report, note 19, Code of Best Practice, paragraph 3.3.

<sup>35</sup> Remuneration Consultants Group 'Voluntary Code of Conduct in Relation to Executive Remuneration Consulting in the United Kingdom' (2014)  
<<https://www.remunerationconsultantsgroup/assets/Docs/RCG%20Code%20of%20Conduct>> Accessed 20<sup>th</sup> June 2014.

<sup>36</sup> Warren Buffett cited in 'Director & Executive Remuneration Key Issues, Perceptions & Risks: White Paper' Based on 26<sup>th</sup> February 2013 Panel Debate <[www.geniusmethods.com](http://www.geniusmethods.com)> Accessed 20<sup>th</sup> June 2014.

<sup>37</sup> VC, note 35, 2 – 3

in doing so have duties of transparency, integrity, objectivity, competence, due care and confidentiality), but the RC itself is responsible for determining executive pay for EDs.

Another focus in Cadbury was on institutional shareholders: 'given the weight of their votes, the way in which institutional shareholders use their power to influence the standards of corporate governance is of fundamental importance'.<sup>38</sup> The latest UKCGC reinforces this.<sup>39</sup> Institutional shareholder guidelines still exercise a strong influence, but the incentive arrangements operated by institutional shareholders for their own management and key staff may reflect rewards for exactly the same 'short-termism' for which they criticise their investee companies (see Lord Myners's observations regarding the way incentives drive the actions of fund managers: 'It is clear that the government must be involved, at the very least encouraging a cultural shift away from short-term to long-term based performance pay').<sup>40</sup>

The Greenbury Report (1995) focused solely on directors' remuneration. The Code of Best Practice addressed compliance on a 'comply or explain' basis, with specific pay disclosure and policy requirements. The Cadbury disclosure recommendations were actually implemented: 'the report should contain full details of all elements in the remuneration package of each individual director by name'.<sup>41</sup> Additionally, '[R]emuneration committees should consist exclusively of non-executive directors'.<sup>42</sup>

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<sup>38</sup> The Cadbury Report, note 19, paragraph 6.10.

<sup>39</sup> UKCGC, note 33, 5 (Note: FRC Consultation Paper on Executive Pay, 13<sup>th</sup> October 2013 and Consultation Paper on UKCGC, 24<sup>th</sup> April 2014).

<sup>40</sup> House of Commons Business, Innovation and Skills Committee 'The Kay Review of UK Equity Markets and Long-term Decision Making: Government Response to the Committee's Third Report of Session 2013-14' (2013) HC 762 paragraph 62, 28 <<https://www.publications.Parliament.UK/pa/cm201314/cmselect/cmbis/603/603.pdf>> Accessed 12<sup>th</sup> June 2014.

<sup>41</sup> The Greenbury Report, note 20, 15.

<sup>42</sup> The Greenbury Report, note 20, 14.

Although the RC would produce an annual report for shareholders, this would not be put to vote. It was not until 2002 that there was an annual advisory vote on the DRR. Greenbury favoured the replacement of option schemes by performance shares - with three-year comparative TSR governing the vesting of awards, as opposed to vesting being reliant just on continued service and absolute business performance (e.g., EPS growth over inflation, with a stipulated performance hurdle/range).

The Hampel Report (1998) stated : ‘the emphasis on accountability has tended to obscure a board’s first responsibility – to enhance the prosperity of the business over time’<sup>43</sup>. Hampel focused on practical issues (e.g. abhorring ‘box ticking’): ‘(...) it is dangerous to encourage the belief that rules and regulations about structure will deliver success. Accountability by contrast does require appropriate rules and regulations, in which disclosure is the most important element’.<sup>44</sup> It recommended a strengthening of the Cadbury ‘comply or explain’ regime.

The Labour Government introduced an annual advisory vote on the DRR (2002), the dotcom stock market crash in 2001 having focused minds again on ‘rewards for failure’ and the belief that boards needed to be made more accountable. The UK ‘say-on-pay’ legislation required the RC to include details in the DRR of remuneration policy for the current and previous financial years (and figures of each director’s pay), introduced via The Directors’ Report Remuneration Regulations 2002 SI 2002/1986.

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<sup>43</sup> The Hampel Report, note 21, 17.

<sup>44</sup> The Hampel Report, note 43.

As indicated by Gregory-Smith, the UK effect of say-on-pay was modest - even after the GFC.<sup>45</sup>

Sudhakar Balachandran's research of UK companies following the introduction of the advisory vote found: 'these tests confirm the increase in sensitivity of CEO cash and (more weakly) total compensation to negative operating performance after the new rule, but not the increase in sensitivity of CEO total compensation to negative stock performance'.<sup>46</sup>

The period 1992 – 2003 closes with the 2003 Higgs Report on the effectiveness of NEDs. Higgs refers to 'a background of corporate turbulence'.<sup>47</sup> NEDs were centre stage – with recommendations on their role and duties, remuneration, time commitment, training, plus a summary of the RC's principal duties. He makes the point – echoed by Main subsequently – that 'expectations of non-executive directors have risen as increased business complexity has made it more difficult for shareholders effectively to hold management to account'.<sup>48</sup> However, Main additionally stresses that it is the work RCs now need to do over and above ensuring business probity that may reveal the potential shortcomings of NEDs' performance.

### **2.2.3. Review: 2003 – 2014**

Following the introduction of the DRR/say-on-pay regulation (2002), and the Higgs Review (2003), there was the introduction of the relevant Companies Act 2006 provisions (notably section 420 (1) stipulating disclosure provisions for quoted companies - prescribed in The Large and Medium-sized companies and groups (Accounts and Reports) Regulations 2008 S1 2008/410).

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<sup>45</sup> Gregory-Smith, note 11.

<sup>46</sup> Sudhakar Balachandran, Fabrizio Ferri and David Maber 'Solving the Executive Compensation Problem Through Shareholder Votes? Evidence from the UK' (2007) Harvard Business School Working Paper <[http://www7.gsb.columbia.edu/ciber/sites/default/files/balchandranCIBER\\_Grant\\_Paper\\_UK\\_Voting.pdf](http://www7.gsb.columbia.edu/ciber/sites/default/files/balchandranCIBER_Grant_Paper_UK_Voting.pdf)> Accessed 12th August 2014.

<sup>47</sup> The Higgs Review, note 22, 3.

<sup>48</sup> The Higgs Review, note 47.

Martin Conyon's research investigated UK voting in the period 2002 – 2007, to assess the effect of the mandatory non-binding vote.<sup>49</sup> It found a vote against/abstention rate of less than 10% against the DRR – notwithstanding that shareholders were more likely to vote against DRR resolutions than non-pay ones (particularly voting against LTIs and STIs). The overall conclusion was 'limited evidence that on average say-on-pay materially alters the subsequent level and design of CEO compensation.'<sup>50</sup> This is hardly surprising given that the research of Keith Hallock (and others) has shown that 'one of the variables most highly correlated with executive compensation is the size of the company'.<sup>51</sup> This holds for assets/number of employees and market value.<sup>52</sup>

Main makes the point however that the expectations on RCs have risen: 'from simply being a guarantor of the probity of the pay process to one of performing a key principal-agent role in the strategic human resource management of the company'.<sup>53</sup> He adds: 'it can clearly be seen that step- by-step the remuneration committee has been increasingly asked to take responsibility for ensuring that the executive reward structure is aligned with the overall business strategy of the company'.<sup>54</sup>

With the introduction of the advisory vote RCs came under annual pressure 'to keep in view both the previously-awarded incentive schemes and the current design of incentive schemes'.<sup>55</sup>

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<sup>49</sup> Martin Conyon and Graham Sadler 'Shareholder Voting and Directors' Remuneration Report Legislation: Say on Pay in the United Kingdom' (2010) *Corporate Governance: An International Review* 18 (4) 262-312.

<sup>50</sup> Conyon, note 49, 262.

<sup>51</sup> Kevin Hallock 'The Relationship Between Company Size and CEO Pay' (2011) *Workspan* <<http://www.ilr.cornell.edu/ICS/InsightsAndConvenings/upload/02-11-Research-for-the-real-world.pdf>> Accessed 19<sup>th</sup> June 2014.

<sup>52</sup> Xavier Gabaix, Augustin Landier and Julien Sauvagnat, note 17.

<sup>53</sup> Main, note 2,2.

<sup>54</sup> Main, note 1,9.

<sup>55</sup> Main, note 2,6.

In other words, RCs have become part of the strategic human resource management process within companies. Part of avoiding 'rewards for failure' is RCs structuring and 'calibrating' pay to the long-term performance and sustainability of the business.

Main's concerns over RC performance ('remuneration committees feel constrained in their choice by an institutional isomorphism of remuneration design, particularly with regard to LTIs; they commonly fail to allocate the time or resource to calibrate or confirm the effective operation of the chosen remuneration plan and many of their actions are dominated by a perceived need to be able to justify any high pay outcomes in communications with shareholders and institutional investors'<sup>56</sup>), focus on whether the way in which RCs go about their role 'limits the extent to which they are able to live up to the high expectations placed upon them in terms of effecting an alignment of executive interests with the critical success factors of corporate strategy'.<sup>57</sup> As if all this was not challenging enough, along came the GFC. James Barty<sup>58</sup> details four examples of 'rewards for failure' prior to the onset, during or after the GFC; namely, Royal Bank of Scotland Group,<sup>59</sup> Thomas Cook,<sup>60</sup> Punch Taverns<sup>61</sup> and Cable & Wireless.<sup>62</sup>

The Walker Review (2009) made detailed recommendations on the governance of risk, plus the design of remuneration arrangements. It makes the point (amply echoed in the subsequent Salz

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<sup>56</sup> Main, note 53.

<sup>57</sup> Main, note 2,26.

<sup>58</sup> James Barty and Ben Jones 'Executive Compensation Rewards for Success not Failure' (2012) Policy Exchange < <http://www.policyexchange.org.uk/images/publications/executive%20compensation.pdf> > Accessed 20<sup>th</sup> June 2014.

<sup>59</sup> Barty, note 58, 41.

<sup>60</sup> Barty, note 58, 45.

<sup>61</sup> Barty, note 58, 49.

<sup>62</sup> Barty, note 58, 51.

Review of Barclays<sup>63</sup>) that: ‘board conformity with laid down procedures will not alone provide better corporate governance (...) the behaviour changes that may be needed are unlikely to be fortified by regulatory fiat, which in any event risks provoking unintended consequences’. Walker referred to the need for ‘behaviour improvement’.<sup>64</sup>

Walker considered the UK unitary board structure and the UKCGC remain fit for purpose, but with the addition of FSA (FCA) bank/financial sector-specific measures (for example, the FCA Remuneration Code and the SYSC High Level Standards part of the FCA Handbook).<sup>65</sup> There have also been EU initiatives regarding banking pay (e.g. CRD IV), imposing limits on STIs (expressed in terms of multiples of basic salary – one times basic salary unless shareholder approval is obtained, whereupon the limit is two times basic salary), the effect of which has been to instigate the substitution of part of STI opportunity with ‘annual allowances’ (which do not reflect current performance). Significant basic salary rises (as compensation for lower STI opportunity) have also increased the ‘overhead’ available for STIs. The bizarre outcome of basic salary increases and the payment of ‘annual allowances’ has been that banks’ fixed compensation costs have increased dramatically.

The new UK legislation<sup>66</sup> has been criticised by Damien Knight - on grounds including that the ‘single pay figure’ disclosed should be expressed both as ‘remuneration awarded’ and ‘remuneration

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<sup>63</sup> The Salz Review (Barclays PLC, April 2013).

<sup>64</sup> The Walker Review, note 23, 10.

<sup>65</sup> The Walker Review, note 23, 11.

<sup>66</sup> Enterprise and Regulatory Reform Act 2013 and The Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013, 2013 No. 1981.

realised', as opposed to just the latter.<sup>67</sup> Knight's view is that whereas the latter is a better measure for assessing whether company performance justifies total remuneration, the former is better for assessing changes in policy. Barty considers the UK legislation's approach of triggering a binding vote on policy the following year if a company loses its annual advisory one is 'overly convoluted', preferring instead the Australian 'two strikes' basis. He also considers that including LTIs in 'the single figure' confuses the differing time periods over which these are earned.<sup>68</sup> In any event, the UK's new legislation of a binding 'policy' vote (supplementing an advisory 'implementation' one) is likely to be adopted by the EU in an update of the SRD.<sup>69</sup>

### **2.3. REMUNERATION COMMITTEES' DETERMINATION OF EXECUTIVE PAY**

Cadbury recommended: 'boards should appoint non-executive directors and chaired by a non-executive director, to recommend to the board the remuneration of the executive directors in all its forms, drawing on outside advice if necessary'.<sup>70</sup>

Greenbury proposed RCs should consist exclusively of NEDs<sup>71</sup> and RCs should make a report each year to the shareholders on behalf of the board. Pay levels should be no higher than necessary to 'attract motivate and retain' the managerial talent required.<sup>72</sup> Hampel rightly stated: 'Greenbury

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<sup>67</sup> Damien Knight 'UK Executive Pay Reform – The Albatross Has Landed!' (2013) <<https://blog.manifest.co.uk/2013/07/6197.html>> Accessed 27<sup>th</sup> May 2014.

<sup>68</sup> Barty, note 58,35.

<sup>69</sup> TW 'European Commission Proposes Rules on Say on Pay and Disclosure for EU Companies' (2014) <<https://www.towerswatson.com/en/Insights/Newsletters/Global/executive-pay-matters/2014/E>> Accessed 4<sup>th</sup> June 2014.

<sup>70</sup> The Cadbury Report, note 19, paragraph 4.42.

<sup>71</sup> The Greenbury Report, note 20, 4.

<sup>72</sup> The Greenbury Report, note 20, 16.

was not about controlling board remuneration, nor can that ever be done in a free market economy. But it is already clear that Greenbury's primary aim – full disclosure – is being achieved.<sup>73</sup>

Hampel found 'general acceptance that non-executive directors should have both a strategic and monitoring function'.<sup>74</sup> In Main's eyes though, RC members have strategic, monitoring and functional roles – the latter being their integral role in the company's strategic human resource management (i.e., being key players in the design and management of all elements of the executive remuneration package). It is this aspect of the RCs' role that causes concern to Main (and similar themes can be picked up in Higgs).

#### **2.4. EXECUTIVE PAY DISCLOSURE REGIME**

Disclosure is only part of the story, just as important is what actually goes into the relevant tables. For example, LTIs can be valued at grant/award or vesting/exercise date – and methods vary from a simple calculation of by how much shares are 'in the money' to sophisticated variants of the Black- Scholes valuation methodology (using binomial lattice and Montecarlo techniques). Greenbury disclosure of remuneration was fairly straightforward though; for basic salary and STI it was the amounts paid in, or in respect of, the relevant financial period, whereas the grant and exercise/vesting of LTIs was simply tabled and pensions were disclosed on a narrative basis.

In the early 2000s, accounting for share incentives was introduced (IFRS 1992). This meant that a 'cost' figure for LTIs was reflected in the profit and loss account. Such valuations used Black- Scholes type methodology, and at the same time many RCs started using present economic value techniques for pay benchmarking and determining LTI award/grant levels.

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<sup>73</sup> The Hampel Report, note 21, 19.

<sup>74</sup> The Hampel Report, note 73.

Knight's criticisms mentioned earlier are relevant.<sup>75</sup> To make proper comparisons over time the disclosure of both LTIs 'awarded' and 'realised' is needed (plus a share price growth table in the policy scenario charts).<sup>76</sup> RCs often determine grant/award levels in light of the relative 'severity' of the performance conditions attached to vesting/exercisability – so the legislation, in explicitly ignoring the upfront impact of performance conditions, rather turns the clock back on about 15 years of sophisticated work that enabled RCs to assess LTI grant/award levels.

In regards to pensions, the new legislation applies a multiple of 20 to value annual DB accruals – the same one as used for LTA purposes. Again, this is a simplification that undervalues the cost/benefit of DB pension arrangements compared to DC ones (a corresponding annuity multiple, depending on assumptions selected, might perhaps be 30).

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<sup>75</sup> Knight, note 67.

<sup>76</sup> Knight, note 67.

## CHAPTER 3

### 3. COMPARATIVE PERSPECTIVE

#### 3.1. Key features of the comparative exercise

The approach adopted in this paper regarding selection of particular aspects of executive pay for comparison purposes is that used by Calvin Jackson in WW's 2009 Study<sup>77</sup> and the subsequent articles in Benefits & Compensation International magazine<sup>78</sup>; namely, the governance of executive pay – RCs/say-on-pay/disclosure of executive pay/STI and LTI design. The present paper covers USA, EU, Germany, France and Japan. These territories (the EU being regarded as a single territory due to EU-specific legislation covering member states) comprise the World Bank's ranking of the largest territories by GDP size (excluding China).<sup>79</sup>

All the territories have RCs in operation and, to a greater or lesser extent, have say-on-pay regimes with NEDs comprising a majority (or at least a minority in Japan). 'Comply or explain' is strong in all but the USA and Japan. Accordingly, the comparative exercise shows sophisticated executive pay regulation in the territories concerned (save for Japan where the position is still rather nascent).

#### 3.2. USA

Bailey Morris-Eck points out: '[T]he US did not take the UK path of non-binding 'comply or explain' codes, nor is it likely to given its vastly more complex regulatory structure and a host of diverse players who have different cultures and agendas'.<sup>80</sup> Yet she asserts Cadbury had a big impact on

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<sup>77</sup> Calvin Jackson and Katy Bennett 'Executive Pay Practices Around the World' (2009) WW.

<sup>78</sup> Calvin Jackson and Katy Bennett 'Executive Pay Practices Globally – Is convergence on the way?' Parts 1+2 (2009) Benefits & Compensation International, 39 (2) ,(3) 3-9 , 3-8.

<sup>79</sup> The World Bank GDP Ranking (2012) <<https://data.worldbank.org/data-catalog/GDPPranking-...>> Accessed 24<sup>th</sup> June 2014.

<sup>80</sup> Bailey Morris-Eck 'Increasing Interaction' in 'Comply & Explain 20<sup>th</sup> Anniversary of the UK Corporate Governance Code' (FRC, 2012), 33 <<https://www.fre.org.uk/our-work/Publications/Corporate-governance/Comply-or-explain>> Accessed 24<sup>th</sup> June 2014.

subsequent initiatives by US exchanges ‘to put corporate governance on the map for listed companies’.<sup>81</sup> She argues that this has resulted in shareholders being better organised and more focused on ‘achieving constructive dialogue with companies that will minimize excess and result in enhanced long-term shareholder value’.<sup>82</sup> One can see, in the US, a beneficial flow from Enron/WorldCom days, through the SOX provisions (particularly, CEO and CFO ‘certification’ of accounts) to say-on-pay being introduced. Indeed, as Morris-Eck states: ‘it would be a mistake to regard the US as a vast corporate governance wasteland over the past twenty years of real if uneven process’. She views DFA’s say-on-pay as being a ‘game-changer’.

The US was the first country to operate prevalently Compensation Committees (the US title for RCs). As reported by TW: ‘the vast majority of companies continue to receive good marks from shareholders regarding their pay programs’.<sup>83</sup> Ira Kay states: ‘though opportunities remain for companies to improve their pay programs, most should view SoP results as a general endorsement of the current executive pay model’.<sup>84</sup>

Interestingly, the introduction of the US say-on-pay provisions is leading to more homogeneity of remuneration package design. This follows the UK experience. There is less scope for customization and innovation to fit a particular company’s circumstances. Again, the US has followed the UK trend away from share options to performance shares and, ironically, the US is

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<sup>81</sup> Morris-Eck, note 80, 33.

<sup>82</sup> Morris-Eck, note 80, 34.

<sup>83</sup> Robert Newbury, Jessica Yu and Jim Kroll ‘Shareholder Engagement: A Key Component of Improved Say-on-Pay Outcomes in 2014’ (*Towers Watson*, 12<sup>th</sup> March 2014)  
<<http://www.towers.watson.com/en/Insights/Newsletters/Global/executive-pay-matters/2014/u>> Accessed 4<sup>th</sup> June 2014.

<sup>84</sup> Ira Kay ‘Say on Pay: A Victory for Shareholders and the Executive Pay Model’ (*The Harvard Law School Forum on Corporate Governance and Financial Regulation* 2011)  
<<http://blogs.law.harvard.edu/corpgov/2011/08/08/say-on-pay-a-victory-for-shareholders>> Accessed 9th June 2014.

focusing more on comparative TSR as a performance measure governing vesting at just the time that UK institutional shareholders are finally allowing more flexibility in performance measure selection.

In summary, the US has RCs, pay disclosure and advisory say-on-pay, but does not operate 'comply or explain'. Todd Lippincott warns: '[T]o support performance and longer-term success the next phase of executive compensation's evolution needs to embrace these concepts of thoughtful customization and differentiation'.<sup>85</sup> It would be ironic if the US (just at the time when Lippincott states 'we know that executive compensation design has not only changed, but has fundamentally improved') opts for standardization in line with institutional shareholder guidelines and adopts performance measures which have been considerably discredited in the UK.

### **3.3. EU**

Mario Becht points out that, with the notable exception of the US, the 'Cadbury Code has been copied, transposed or adopted in every member state of the European Union and in more than 60 other countries elsewhere in the world'.<sup>86</sup> He rehearses the perceived advantages of 'comply or explain' as 'a pragmatic tool that can improve corporate governance without the need for inflexible, burdensome and misguided rules, laws or regulation'.<sup>87</sup> The 'independent director' concept has been adopted around the world (and included in the 1999 and 2004 versions of the OECD Corporate Governance Principles).

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<sup>85</sup> Todd Lippincott and Doug Friske 'The Next Stage In Executive Compensation's Evolution' (*Towers Watson* 17<sup>th</sup> April 2014) <<http://www.towerswatson.com/eu/Insights/Newsletters/Global/executive-pay-matters/2014/T>> Accessed 4th June 2014.

<sup>86</sup> Mario Becht 'Comply or Just Explain' in 'Comply or Explain 20<sup>th</sup> Anniversary Of The UK Corporate Governance Code', note 80, 11–14.

<sup>87</sup> Becht, *ibid*, note 80, 12.

RiskMetrics refers to Cadbury as being the cornerstone of the 'comply or explain' framework in Europe, long before this system was introduced into European law.<sup>88</sup> However, the majority of the Western European states introducing codes of practice in the 1990s did not adopt 'comply or explain'. The second phase followed later (in the 2000s) and saw an internationalisation of the concept. RiskMetrics warns 'corporate governance codes in the EU must therefore be seen in their own specific contexts'.<sup>89</sup> Becht emphasises EU market developments complicated matters further – so 'to solve these cross-jurisdictional problems, the European Commission amended the Fourth Company Law Directive on annual accounts. The Directive formally adopts the 'comply or explain' principle as 'apply or depart and explain' at the European level'.<sup>90</sup> There must be a 'corporate governance statement' in the annual report (referring to the applicable code). He maintains: '[T]he European Union has solved the legal problem of codes incompatibility but in the process, it created a disclosure monster.'<sup>91</sup>

The GFC provided impetus for EU initiatives on executive pay, mainly applicable to financial services. The remuneration aspects of CRD IV and UCITS V exemplify the level of detail with which the EU seeks to regulate executive pay in the sector. More generally than financial services, the 2011 Green Paper on the EU Corporate Governance Framework,<sup>92</sup> built on the EC's 2009 Recommendation<sup>93</sup> - with new guidelines on directors' remuneration, currently remains ongoing. This April the EC

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<sup>88</sup> RiskMetrics 'Study on Monitoring and Enforcement Practices in Corporate Governance in Member States', (23<sup>rd</sup> September 2009) Contract no. ETD/2003/IM/F2/126, 22  
<[http://ec.europa.eu/internal\\_market/company/docs/ecgforum/studies/comply-or-explain](http://ec.europa.eu/internal_market/company/docs/ecgforum/studies/comply-or-explain)> Accessed 24<sup>th</sup> June 2014.

<sup>89</sup> RiskMetrics, note 88, 22.

<sup>90</sup> Becht, note 80, 13. (See Council Directive 78/660/EEC as amended by Directive 2006/46/EC).

<sup>91</sup> Becht, note 90.

<sup>92</sup> EU Green Paper 'The EU Corporate Governance Framework' (2011).

<sup>93</sup> EC Recommendation c (2009) 3177 (30<sup>th</sup> April 2009).

published proposals on say-on-pay which largely mirror the recently-introduced UK rules. As pointed out by Tamsin Sridhara: ‘the impact of the EC’s proposals will vary significantly from country to country in the EU because some, such as France, Germany and the UK have already introduced similar measures in whole or in part’.<sup>94</sup>

### **3.4. Germany**

Germany has both ‘comply or explain’ and say-on-pay (currently, the Vorst AG non-binding vote regime). The combination of the German Corporate Governance Code and federal laws means that details of executive pay are published in annual reports and are subject to a shareholder advisory vote. There are currently proposals to make the latter a binding vote, but these have stalled. Each year the executive board and supervisory board publish a declaration of conformity with the Code (see for example, Softing AG’s 2013 declaration).<sup>95</sup>

So German companies have RCs (the compensation committee of the supervisory board), ‘comply or explain’, plus say-on-pay. The stalled proposals for a binding say-on-pay vote are likely to come in anyway, as and when the EU amendments to the SRD are enacted. This would bring Germany into line with the current UK position on say-on-pay.

### **3.5. France**

Like Germany and the UK, France operates RCs, has ‘comply or explain’ provisions and an advisory say-on-pay regime for listed companies choosing to operate the key corporate governance code.

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<sup>94</sup> Tamsin Sridhara and Dan Perrett ‘European Commission Papers on Say on Pay and Disclosure for EU Companies’ (Towers Watson 14th April 2014) <<http://www.towerswatson.com/en/Insights/Newsletters/Global/executive-pay-matters/2014/E>> Accessed 4th June 2014.

<sup>95</sup> Softing AG (2013) <<https://investor.softing.com/en/corporate-governance/corporate-governance-code>> Accessed 25<sup>th</sup> June 2014.

The AFEP and MEDEF (the two main French business groups) Corporate Governance Code has recently been revised (see Jones Day's July 2013 newsletter<sup>96</sup>) and is applied extensively (as confirmed by the Financial Markets Authority). Listed French companies must comply with the general French company law provisions and may also refer to recommendations in 'a reference governance code' – with any deviation from the code being disclosed to shareholders. Jones Day refers to the AFEP and MEDEF Code as being the 'code of choice' for CAC 40 and other large French companies, with say-on-pay covering directors' compensation packages. The shareholder vote is currently advisory, but in due course France – like Germany and other EU member states - will be covered by binding proposals contained in SRD amendments.

### 3.6 Japan

Japan operates RCs and discloses directors' pay (albeit on an aggregate basis for all directors). Japan also has a binding shareholder vote to approve changes in director compensation amount and compensation policy. But Sodali criticises Japan's position: 'corporate governance standards for Japanese companies are underdeveloped and lag far behind global best practice (...) comply or explain in a code cannot work effectively in the absence of corporate governance principles against which non-compliance can be evaluated.'<sup>97</sup>

<sup>96</sup> 'AFEP and MEDEF Revising Corporate Governance Code for Listed Companies: Say-on-Pay Comes to France' (Jones Day LLP July 2013) <<http://www.jonesday.com/afep-and-medef-revise-corporate-governance-code-for-listed-companies>> Accessed 25th June 2014.

<sup>97</sup> 'Japanese Version of Stewardship Code' (Sodali February 2014) <[http://www.sodali.com/static/allegati/Sodali\\_Comment\\_of\\_Japanese\\_Stewardship\\_Code.pdf](http://www.sodali.com/static/allegati/Sodali_Comment_of_Japanese_Stewardship_Code.pdf)> Accessed 25th June 2014

This is embarrassing in that, as pointed out by O'Melveney & Myers, Prime Minister Abe had 'touted corporate governance reform as key to revitalizing the country's economy'.<sup>98</sup>

It is not as if the Japanese themselves lack insight into these corporate governance challenges (particularly the continuing paucity of independent directors). The Japanese Association of Corporate Directors' guidelines detail some of the improvements made since the 2007 revision, but state that 'a majority of investors are concerned about executive compensation systems of Japanese companies and pointed out the insufficiency of disclosure items regarding their executive compensation'.<sup>99</sup>

<sup>98</sup> O'Melveney & Myers LLP 'Abenomics – Dynamic Change in Corporate Governance in Japan' (O'Melveney & Myers Newsletter 23 June 2014), <<http://www.omm.com/abenomics---dynamic-change-in-corporate-governance-in-japan/>> Accessed 25th June 2014.

<sup>99</sup> Japan Association of Corporate Directors 'Guidelines on Executive Compensation 2013 and Requests for Revision of Regulations and Tax Systems 2013 Guidelines on Executive Compensation 3<sup>rd</sup> Edition' (April 2013) <[http://www.jacd.jp/en/resources/130412\\_guidelines\\_on\\_executive\\_compensation2013.htm](http://www.jacd.jp/en/resources/130412_guidelines_on_executive_compensation2013.htm)> Accessed 25<sup>th</sup> June 2013.

## CHAPTER 4

### 4. FINDINGS AND DISCUSSION

#### 4.1. Introduction to findings on UK regulatory regime applicable to executive pay

BIS commented in 2011: '[T]he general disconnect between pay and long-term performance suggests that there is something dysfunctional about the market in executive pay or a failure in corporate governance arrangements', noting: '[A]lthough concerns about executive pay are not new, the recent financial crisis has made shareholders, the public and Government more acutely aware of the issue and more critical of perverse incentives or excessive levels of reward'.<sup>100</sup>

Greenbury viewed accountability, transparency and performance as being the three key tenets.<sup>101</sup> On accountability, a RC of independent directors should determine EDs' pay, and transparency effected by disclosing full information to shareholders in due course. There is now far more accountability and transparency in UK executive pay determination and disclosure. All UK listed companies have RCs comprised of independent NEDs, and the combination of advisory vote on implementation of remuneration policy and binding vote in respect of the policy itself gives shareholders greatly enhanced information and also the opportunity to vote on pay.

There remains most controversy over pay levels and 'rewards for failure'. BIS states in respect of the former, that: 'the median total remuneration of FTSE 100 CEOs has risen from an average of £1m to £4.2m for the period 1998 – 2000. Growing company size, international competition for talent, benchmarking practices and the changing structure of pay are just some of the reasons cited for this

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<sup>100</sup> BIS 'Executive Remuneration Discussion Paper' (2011) Department of Business, Innovation and Skills <[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31660/11-1287-executive-remuneration-discussion-paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31660/11-1287-executive-remuneration-discussion-paper.pdf)> Accessed 12th August 2014.

<sup>101</sup>The Greenbury Report, note 20, 11.

trend'.<sup>102</sup> Regarding pay-for-performance, BIS states that: 'over the last decade the link between pay and performance has been hard to discern. CEO pay has risen faster than the increase in the FTSE 100 index, retail prices or average remuneration levels across all employees for the same period'.<sup>103</sup>

The responses to the BIS Consultation Paper were published in January 2012.<sup>104</sup> Two-thirds of responses maintained that: 'the link between pay and performance could be strengthened by moving away from TSR (because it is used on a comparative basis) and EPS (because it is perceived to be easy to manipulate) as measures of performance'.<sup>105</sup> There was two-fifths support for extending LTI periods beyond the current three-year norm, whereas a similar proportion felt that the company should determine the period and just over one-third thought that vesting periods need not be as long as three years.<sup>106</sup>

Over one-half of those who responded to the BIS Consultation agreed that simpler models of remuneration – such as 'career shares' (where directors hold shares in normal circumstances until they leave service and even beyond) – would align the interests of directors with shareholders.<sup>107</sup>

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<sup>102</sup> BIS, note 100.

<sup>103</sup> BIS, note 100.

<sup>104</sup> BIS 'Executive Remuneration Discussion Paper: Summary of Responses' (2012) Department for Business, Innovation and Skills  
<[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31381/12-564-executive-remuneration-discussion-paper-summary-responses.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31381/12-564-executive-remuneration-discussion-paper-summary-responses.pdf)> Accessed 12th August 2014.

<sup>105</sup> BIS, note 104, 12.

<sup>106</sup> BIS, note 105.

<sup>107</sup> BIS, note 104, 13.

There was little support for a binding vote on remuneration policy and just ‘a small proportion suggested that RCs should publish a single figure for each directors’ annual remuneration’ (which has now become law).<sup>108</sup>

A not dissimilar situation occurred in 2011 in an EU context, where only a small minority agreed that the remuneration policy and remuneration report should be put to a binding vote by shareholders.<sup>109</sup> Of course, the EU now proposes – following the UK – that both advisory and binding votes should be held.<sup>110</sup>

#### **4.2. Findings: Remuneration committees’ determination of executive pay**

Main’s two 2007 papers<sup>111</sup>, <sup>112</sup> can be summarised thus: (i) RCs have moved ‘from simply being a guarantor of probity to playing a key principal-agent role in the strategic human resource management of the company’,<sup>113</sup> (ii) the way RCs conduct their business is causing them difficulties in living up to these high expectations, and (iii) RC practice ‘cannot be understood from an agency theory perspective alone but benefits from recognition of the inertia, social embeddedness and path- dependence encountered as remuneration committees seek legitimacy under the prevailing regulatory, normative and cognitive influences that condition their actions’.<sup>114</sup>

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<sup>108</sup> BIS, note 107.

<sup>109</sup> ‘Executive Compensation Market Watch’ (*Towers Watson Executive Compensation Market Watch*, December 2011) <<https://www.towerswatson.com/en-GB/Insights/Newletters/Europe/executive-compensation>> Accessed 6<sup>th</sup> June 2014.

<sup>110</sup> EU Green Paper ‘The EU Corporate Governance Framework’, note 92.

<sup>111</sup> Main, note 2.

<sup>112</sup> Main, note 1.

<sup>113</sup> Main, note 2, 2.

<sup>114</sup> Main, note 1, 6–7.

Main considers that ‘remuneration committees feel constrained in their choice by an institutional isomorphism of remuneration design, particularly with regard to LTIs’.<sup>115</sup> Other concerns were whether RCs devoted sufficient time or resources to their duties (for LTI design, ‘calibration’ of LTIs and reviewing past operation) and ‘the perceived need to justify high pay outcomes to shareholders and institutional investors’.<sup>116</sup> In relation to the latter, Main in his review of the literature refers, in relation to RCs’ behaviour, to: ‘the driving motivation is not directly to maximise shareholder value but (...) to reach for a degree of ‘legitimacy’’.<sup>117</sup>

This has important results, for example: ‘performance criteria are chosen less because of their linkage with the key success factors of corporate strategy and more because of their common acceptance and use within the sector’.<sup>118</sup> Main believes his work adds to that suggesting ‘that the dominant paradigm of agency theory may not be capable on its own of fully explaining the observed remuneration arrangements for a company’s top executives. The arguments presented here suggests developing theory so as to set agency theory within a neo-institutional framework’.<sup>119</sup>

Main questioned whether RCs were able to meet such high expectations. In 2011 there was a further Main/TW Study of how RCs operate.<sup>120</sup> The key findings were that (i) RC members had mixed views on the extent to which pay drives behaviour, (ii) technical knowledge of pay is not a prerequisite for sitting on a RC, and (iii) what has been earned from executive pay in prior years was not seen as being of much relevance in decision-making.

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<sup>115</sup> Main, note 2, 2.

<sup>116</sup> Main, note 115.

<sup>117</sup> Main, note 1, 5.

<sup>118</sup> Main, note 1, 6.

<sup>119</sup> Main, note 1, 34.

<sup>120</sup> Main ‘What Makes Remuneration Committees Effective?’ (*Towers Watson* 2011) <[www.towerswatson.com](http://www.towerswatson.com)> Accessed 8th August 2014.

There is a checklist of ‘key success factors for RCs’, with particular stress, as in 2007, on the crucial role of RC Chair.<sup>121</sup>

Main’s findings are similar to Higgs’s regarding NEDs generally. Sufficient time must be allocated for pre-reading reports, for the RC meeting itself and to hold regular meetings without any company management being present. Main makes the point and RC: ‘membership was seen as requiring general skills rather than any particular skill in human resources.’<sup>122</sup>

Main considers that, in respect of RCs’ strategic human resource management tasks, they are running ever faster simply to stand still. For company management similar considerations apply. As Barty states: ‘[T]he comparison of share price performance with pay has often ignored the fact that global equity markets have struggled because of falling valuations rather than falling profits. The FTSE 100 has seen valuations compress by around three-quarters since 1999, with the price earnings ratio falling from 40 to around 10 today’.<sup>123</sup> Again, as pointed out by Barty: ‘over the same period [1998 – 2010] FTSE 100 profits had risen by more than 250% and had further risen to over 300% by the end of 2011 (just about enough to offset the de-rating of the equity market)’.<sup>124</sup> Barty considers that although ‘there has been some ratcheting up of executive pay, it is not as dramatically out of proportion as some have argued’.<sup>125</sup>

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<sup>121</sup> Main, note 120, 4.

<sup>122</sup> Main, note 1, 17.

<sup>123</sup> Barty, note 58, 15.

<sup>124</sup> Barty, note 123.

<sup>125</sup> Barty, note 58, 14.

Barty's findings are particularly important in that the UK debate over executive pay levels and pay for performance (and 'rewards for failure') focus very much on comparing executive pay against that of employees or selected equity indices. He demolishes the former with a well-made 'data timing dependency' point in respect of the HPC's 'poorly informed analysis'<sup>126</sup> and in respect of the latter he stresses that executive pay should be compared against profits, not equity indices.<sup>127</sup> He also stresses the link between pay levels and company size.

Barty states: 'if a CEO is successful they should be paid accordingly. The fatal flaw in the system is that executives do not suffer a loss if they fail – there remain rewards for failure' and 'this is a key issue of the principal agent problem. If you are an owner/entrepreneur and the company you own fails you bear the loss. Currently, if you are an executive and you fail the shareholders bear almost all the loss'.<sup>128</sup> This echoes the thrust of Gerald Garvey's and Todd Milbourn's views.<sup>129</sup> Barty comments that: 'while salaries have slightly doubled since 1998, bonuses have more than quadrupled and LTI payments are up tenfold' (the figures for STI payments though have broadly tracked EPS growth).<sup>130</sup>

The reason for stressing Barty's findings is that, as pointed out by Main on LTIs, RCs feel constrained by the institutional shareholder guidelines' focus on comparative TSR performance. Having said this, more recent versions of the ABI guidelines refer to absolute operating performance measures being acceptable, provided these are ones shareholders would see as reflecting the long-term performance

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<sup>126</sup> Barty, note 125.

<sup>127</sup> Barty, note 58, 14.

<sup>128</sup> Barty, note 58, 17.

<sup>129</sup> Gerald Garvey and Todd Milbourn 'Assymetric Benchmarking in Compensation: Executives are Paid for Good Luck but not Penalised for Bad' (2006) *Journal of Financial Economics* 82 (1) 197 -226.

<sup>130</sup> Barty, note 128.

of the company (this has led over time to ‘bifurcated’ or ‘trifurcated’ LTI metrics being adopted, part comparative TSR and part absolute business performance).<sup>131</sup>

This paper’s finding regarding RCs’ determination of executive pay is that the regulation that started with Cadbury has been beneficial, but RCs’ task has grown ever harder. Barty’s view is that this requires ‘increased professionalisation of the non-executive director role.’<sup>132</sup>

#### **4.3. Findings: Regime for disclosure of UK executive pay**

The term ‘disclosure’ is really a short cut for describing both the publication of directors’ pay packages (each director, by package component and overall) and also say-on-pay provisions. The UK initially had simply the former (introduced post-Greenbury), the latter was introduced by the DRR advisory vote (in 2002). The binding vote on remuneration policy (plus the ‘single pay figure’) was recently added. So we can see movement from the pre-Cadbury ‘banded emoluments’ figure, to now where the level of disclosure is extremely high. It is too simplistic to argue however that because the level of directors’ pay has increased massively since disclosure that this is responsible for the increase (RCs have always had access to remuneration consultants’ pay survey data).

This paper has already covered Knight’s and Barty’s criticisms of the most recent say-on-pay developments. No doubt some disclosure compromises were necessary to produce a single figure enabling cross-company comparisons to be easily made, but it should have been possible to formulate more real life/accurate valuation methodologies.

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<sup>131</sup> ABI ‘Principles of Executive Remuneration’, note 25, 10-11.

<sup>132</sup> Barty, note 58, 20.

Over the past 35 years the UK disclosure regime has improved dramatically for the better, but it remains work in progress. Both in the UK and EU, the respective say-on-pay consultation exercises (2011) revealed a far from overwhelming demand for more legislation – but the UK has now moved to the combined advisory/binding vote process and it looks as if the EU will do the same. This makes it all the more important that no opportunity is lost to make the actual disclosure format adopted as helpful as possible.

#### **4.4. Findings: Institutional shareholders**

Main's points regarding institutional shareholders are important.<sup>133</sup> Apart from distinguishing the UK from the US (this is changing though in recent years, with the growing importance of ISS voting recommendations to US institutional shareholders regarding say-on-pay issues), it underlines that UK institutional shareholder guidelines have been an important factor in shaping executive pay since the 1980s.

The ABI has been most active (however some commentators maintain that RREV/ISS now takes pole position, due to ISS' US link),<sup>134</sup> with publications in 2012<sup>135</sup> and 2013.<sup>136</sup> The FRC's UKSC<sup>137</sup> and its publications on 'comply or explain'<sup>138</sup> provide much detail on UK practice and requirements

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<sup>133</sup> Main, note 1, 8.

<sup>134</sup> New Bridge Street 2013 'RREV & NAPF UK Remuneration Guidance 2012' ([www.newbridgestreet.com](http://www.newbridgestreet.com)).

<sup>135</sup> ABI 'Comply or Explain Investor Expectations and Current Practices' (2012).

<sup>136</sup> ABI 'Improving Corporate Governance and Shareholder Engagement' (2013) <<https://www.abi.org.uk/insurance-and-savings/Topics-and-issues/Investment-and-...>> Accessed 9<sup>th</sup> June 2014.

<sup>137</sup> UKSC, note 33.

<sup>138</sup> FRC 'What Constitutes an Explanation under Comply or Explain' (2012) <<https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/What-constitutes-an-explanation-under-comply-or-ex.pdf>> Accessed 10<sup>th</sup> June 2014.

for institutional shareholders, as does the Government's Response to the Kay Review.<sup>139</sup> The ABI's 2013 publication states: 'the reciprocal of the accountability of the board to shareholders is the responsibility of shareholders to be proactive in the discharge of their stewardship responsibilities'.<sup>140</sup>

The UKSC<sup>141</sup> applies on a 'comply or explain' basis, setting out the principles of effective stewardship by investors. In practice though there are many difficulties/conflicts involved, as covered in Simon Wong's 2010 paper<sup>142</sup>. He states: '[A]s the dominant owners of listed companies in many developed markets, institutional shareholders have been under increasing pressure to act as responsible shareholders'.<sup>143</sup> He believes: 'stewardship is not in their genetic makeup'.<sup>144</sup> Wong notes: 'inappropriate performance metrics and financial arrangements that promote trading and short-term returns', 'executive portfolio diversification that makes monitoring difficult', a 'lengthening share ownership chain that weakens an "owner mindset"', 'a misguided interpretation of fiduciary duty that accords excessive deference to quantifiable data at the expense of qualitative factors' and a 'flawed business model and governance approach of passive funds'.<sup>145</sup>

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<sup>139</sup> BIS 'Ensuring Equity Markets Support Long-Term Growth The Government Response to the Kay Review' (November 2012) BIS, 2012.

<sup>140</sup> ABI, note 136.

<sup>141</sup> UKSC, note 33, 4.

<sup>142</sup> Simon Wong 'Why Stewardship is Proving Elusive for Institutional Investors' (2010) <<https://ssrn.com/abstract=1635662>> Accessed 24<sup>th</sup> June 2014.

<sup>143</sup> Wong, note 142, 406.

<sup>144</sup> Wong, note 143.

<sup>145</sup> Wong, note 143.

There are dangers in asset managers rewarding themselves for delivering short-term results and comparative, rather than absolute, performance generates rewards. Another issue is where asset managers are rewarded for bringing in new funds: 'rather than expanding existing assets through superior investment performance'.<sup>146</sup> Wong considers: 'the starting point is to lengthen the performance review time period and reduce emphasis on relative returns'.<sup>147</sup> He cites a US value asset manager: 'five-to-ten year basis, since a market cycle is at least that long'.<sup>148</sup>

Joseph Bachelder refers to 'quarterly capitalism'. He questions the effectiveness of the 'oversight' institutional shareholders can provide regarding executive pay in investee companies (as compared to the board of directors). Bachelder notes: '[U]nfortunately, TSR has become a dominant measure in the thinking of institutional shareholders, and their proxy advisors, regarding executive pay. To a significant extent, a stock market metric has been substituted for the numerous and often complex considerations (...) necessary to evaluate executive pay programmes at investee companies'.<sup>149</sup>

Tom Powdrill makes the point: '[R]egrettably, however, there are no signs that the UK 's institutional shareholders are likely to champion a shift away from performance-related reward any time soon. In general they remain implicitly wedded to a view of executive motivation where incentives can be designed to elicit the right behaviour'.<sup>150</sup> He refers to 'the new big idea in the investment community is 'career shares' whereby executives are required to hold at least some share awards

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<sup>146</sup> Wong, note 142, 407.

<sup>147</sup> Wong, note 142, 410.

<sup>148</sup> Wong, note 147.

<sup>149</sup> Joseph Bachelder 'Institutional Shareholders and their Oversight of Executive Compensation' (2012) <<https://www.jebachelder.com/articles/120703html>> Accessed 9<sup>th</sup> June 2014.

<sup>150</sup> Tom Powdrill 'The Failure of Executive Incentive Schemes' (*Renewal* 2001) <<http://www.renewal.org.uk/articles/the-failure-of-executive-incentive-schemes/>> Accessed 27<sup>th</sup> May 2014.

until retirement (...) this seems to be a non-starter from a motivational point of view, since recipients will put very little value on rewards that lie a long way into the future.<sup>151</sup>

Although some of Powdrill's criticisms can be attributed to his strongly-held view that a focus on the structure of executive pay 'does not address the political problem of growing executive reward',<sup>152</sup> his point is that institutional shareholders are part of part of the 'executive pay problem' – in that they look at the structure of pay, as opposed to whether in his words there are "problems with performance pay"<sup>153</sup>

The Kay Review sets out John Kay's suggested 'foundation for future developments in public and regulatory policy and market practice in the investment chain'.<sup>154</sup> BIS's Response refers to Kay's recommendations on better alignment between pay and long-term performance for company directors and asset managers.<sup>155</sup> BIS's Recommendation 13 on 'career shares' accepts that Kay's prescription is 'sensible' (i.e., that LTIs for EDs should only be provided in the form of 'career shares'), but it does not favour 'blanket regulation'.<sup>156</sup>

BIS's Response notes that 'a number of institutional shareholders have set out clearly that they expect companies' remuneration policies to be much simpler and include incentive plans which are

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<sup>151</sup> Powdrill, note 150, 6.

<sup>152</sup> Powdrill, note 150, 2.

<sup>153</sup> Powdrill, note 152.

<sup>154</sup> 'The Kay Review of UK Equity Markets and Long-Term Decision Making: Final Report' (2012) <<https://www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-Kay-review-of-equity-markets-final-report.pdf>> Accessed 6<sup>th</sup> June 2014.

<sup>155</sup> BIS, note 139.

<sup>156</sup> BIS, note 139, 14.

genuinely long-term in nature'<sup>157</sup> – referring to Hermes's 2012 discussion paper on proposed reforms to UK executive remuneration. The government takes the same view regarding asset managers' remuneration (Recommendation 16): 'asset management firms should similarly structure managers' remuneration so as to align the interests of asset managers with the interests and timescales of their clients'<sup>158</sup>. They propose that pay should not be linked to short-term performance of the investment fund or asset management firm but rather a 'long-term performance incentive should be provided in the form of an investment in the fund (either directly or via the firm) to be held at least until the manager is no longer responsible for that fund'.<sup>159</sup> One can see here that Kay, Lord Myners (in his 2013 comments to the House of Commons BIS Committee<sup>160</sup>) and the government are making broadly similar points.

Institutional shareholder remuneration guidelines for investee companies still feature comparative TSR performance (it could be argued that this metric, and the particular way it is generally employed in an LTI context, mean that it is best used only as an 'underpin' to absolute business performance measures) and seek to avoid 'rewards for failure', rather than incentivising strong and sustained absolute performance. So in a way company management and institutional investors are in the same boat – the former are subject to mandatory IMS (quarterly reporting) and the latter to short-term fund performance considerations. It may be that the EU will, in due course, remove the quarterly reporting requirement from the Transparency Directive.

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<sup>157</sup> BIS, note 139, 30.

<sup>158</sup> BIS, note 139, 31.

<sup>159</sup> BIS, note 158.

<sup>160</sup> House of Commons Business, Innovation and Skills Committee, note 40.

#### 4.5. Psychology of performance-related pay

Powdrill considers 'human motivation is more complicated than mainstream corporate governance, and its emphasis on incentive schemes assumes'.<sup>161</sup> He asserts that 'repeated attempts to redesign incentive schemes have diverted shareholder attention away from the overall scale of rewards. Indeed, until relatively recently some asset managers made it almost a point of principle that their interest in remuneration was limited to the way it was structured' and that 'directors and business lobbyists often seek to defend large overall packages on the basis that much of it is performance-related'.<sup>162</sup> Powdrill contrasts the 'two major camps in the argument over the psychology of incentives are those informed by behaviourism and those who favour what has latterly become known as self-determination theory'.<sup>163</sup>

Powdrill notes '[T]here is one interesting overlap between the two camps. Both believe that rewards may be ineffective if they are seen as controlling. This is significant, since in corporate governance debates incentive schemes are usually explicitly intended to control executive behaviour'.<sup>164</sup> Powdrill's conclusion is that: 'it seems unlikely that performance-related reward will make much of a difference to those who are highly-motivated', citing Kenneth Thomas 'so if you are successful in building high intrinsic motivation, don't expect your pay system to have a major positive effect on performance'.<sup>165</sup>

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<sup>161</sup> Powdrill, note 139, 1.

<sup>162</sup> Powdrill, note 139, 3.

<sup>163</sup> Powdrill, note 139, 4.

<sup>164</sup> Powdrill, note 163.

<sup>165</sup> Powdrill, note 139, 5.

The self-determination literature argues that extrinsic motivation, such as the incentive structures, can ‘crowd out’ intrinsic motivation to do the job well. This is picked up by Chuka Umunna, Labour’s Shadow Business Secretary: (...) ‘the heavy focus on the alignment of high powered incentives risks crowding out other more rounded but equally powerful intrinsic motivations of executives that are just as relevant to the company’s success’.<sup>166</sup>

A detailed examination of ‘the underlying human frailties that are exacerbated by variable pay’ is Dimitros Contraros’s 2012 article.<sup>167</sup> Regarding variable pay, he states: ‘the prevalence of this concept within banking has produced negative consequences. Indeed, the motivation of high levels of remuneration is said to have driven executives to engage in excessive risk taking that has been held to be a contributory risk factor to the rise of the recession.’<sup>168</sup> The scenario is one of executives focusing on short-term profits and simply ignoring long-term performance aspects. Contraros’s view is that the regulatory response to this (i.e., SYSC 19A – promoting a long-term time horizon and appropriate attention to risk-taking) will not work because ‘the underlying factor of high levels of monetary incentives continue to be used’.<sup>169</sup>

Contraros considered the rigid nature of SYSC 19A (including high levels of mandatory deferral in the payment of incentives and malus/clawback arrangements) could result in banks ‘expanding the fixed component of pay to make up for the loss in variable remuneration’.<sup>170</sup> He notes that there is

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<sup>166</sup> Chuka Umunna ‘Labour will Address Executive Pay and Rewards for Future’. Speech to the HPC and IPPR on 12<sup>th</sup> January 2012 <<https://www.labour.org.uk/labour-will-address-executive-pay.2012-01-12>> Accessed 2<sup>nd</sup> July 2014.

<sup>167</sup> Dimitros Contraros ‘Changes In Regulations On Executive Remuneration In UK Banks Have Achieved Little In Remedying the Underlying Human Frailties that are Exacerbated by Executive Pay’ (2012) *International Corporate Rescue*, 9 (3) 209-218.

<sup>168</sup> Contraros, note 167, 209.

<sup>169</sup> Contraros, note 167, 210.

<sup>170</sup> Contraros, note 167, 211.

already evidence this is happening, with strong basic salary increases.<sup>171</sup> Contraros notes the longer-term focus introduced in SYSC 19A, but argues that ‘the regulation addresses only half the problem’.<sup>172</sup> His concern is that ‘the use of variable incentives and performance targets to attract and motivate executives will continue to narrow their focus and fail to acknowledge lateral considerations of ethics, honesty, integrity and risks’.<sup>173</sup>

Certainly, Main’s RC interviewees were ‘quite simply sceptical of the efficiency of the process’ of choosing the pay elements and the strengths of their link to performance, with one stating: ‘[T]his motivation business is “phooey”. People do the best job they can’.<sup>174</sup> Main refers to the tension ‘that exists within the remuneration committee between “Performance” on the one hand (achieving an effective agency theory type pay mechanism, thereby strategically aligning incentives) and “Conformance” on the other’.<sup>175</sup> The latter’s emphasis is on being able to demonstrate on an ex- post basis that the payment outcomes conform to corporate governance guidelines/codes.

#### **4.6. Findings: Remuneration committee advisors/in-house executive compensation HR specialists**

Remuneration consultants tend to work for one of the major employee benefit consulting firms or, alternatively, a Big 4 accounting firm. There is criticism of their activities. Umunna argues that: ‘the role of remuneration consultants must be looked at (...) there are widespread concerns that these consultancies are ratcheting up pay here too’.<sup>176</sup> He identifies ‘[P]art of the problem is that – in

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<sup>171</sup> Contraros, note 167, 212.

<sup>172</sup> Contraros, note 167, 214.

<sup>173</sup> Contraros, note 167, 217.

<sup>174</sup> Main, note 1, 20.

<sup>175</sup> Main, note 1, 21.

<sup>176</sup> Umunna, note 166, 5-6.

their advisory role to remuneration committees – the consultants owe their duty to the Board and not to shareholders. This needs to be looked at, along with the risk of conflict where consultants are advising both executive management and non-executive directors on remuneration’.<sup>177</sup>

Although Umunna does state: ‘I am aware of the voluntary guidelines to prevent remuneration consultants cross-selling services’,<sup>178</sup> he considers binding rules should be put in place to prevent conflicts of interest. He mentions lawyers by way of comparison. Apart from the fact that many of the UK’s leading remuneration consultants are actually professionally qualified as lawyers, accountants or actuaries (and work for firms that have business codes in place, authorised/regulated by the FRC or similar), Umunna disregards the VC’s underlying principle that ‘the role of consultants is not to make decisions’.<sup>179</sup>

If remuneration consultants had a duty to shareholders, this would mean that the RC could not look to their consultants as being ‘their advisors’. Even if it were a ‘dual’ duty (i.e., to the RC and shareholders) this would entail the remuneration consultants having two ‘masters’. The present arrangement is straightforward and the line of accountability to shareholders is explicit and easily understood.

There is potential for conflicts of interest to arise in the situation where the appointed remuneration consultants work for a firm that provides other services to the company concerned, but the way this is best dealt with is via disclosure and various other safeguards. An appointed remuneration committee advisor knows that he/she should not advise executive management without first obtaining permission from the RC Chair.

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<sup>177</sup> Umunna, note 166, 6.

<sup>178</sup> Umunna, note 177.

<sup>179</sup> VC, note 35.

In recent years, FTSE 100 companies have moved towards having an in-house executive compensation specialist working in HR. The Main/TW Study referred to earlier found that '[A] supportive and independently-minded HR function whose role vis-à-vis the RC is clear 'is one of the key success factors in making a remuneration committee successful'.<sup>180</sup> This seems entirely sensible.

An in-house executive compensation specialist may potentially be over-influenced by executive management, and may therefore be tempted to 'manipulate' the independent remuneration consultant's advice. The appointed remuneration consultant will have direct access to the RC Chair if any such concerns manifest themselves. Generally, RC Chairs are keen to have excellent liaison/input between the in-house executive compensation specialist and the appointed remuneration consultants, as this minimises the danger of the latter's advice being delivered in a vacuum/not taking on board legitimate interests of executive management.

#### **4.7. Findings: Benefits-v-obligations of UK regulatory regime**

The UK debate on executive pay tends to conflate regulation with allegedly high pay levels/'rewards for failure'. This is understandable given the sort of 'rewards for failure' reflected in Barty's case studies.<sup>181</sup> As Barty states regarding the Shareholders' Spring of 2012: 'this suggests that shareholders have finally had enough of executives who persist in rewarding themselves for sub- standard performance'.<sup>182</sup> The HPC also majors on the ever-widening pay gap between company

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<sup>180</sup> TW/Main, note 120.

<sup>181</sup> Barty, note 58, 38-54.

<sup>182</sup> Barty, note 58, 7.

boards and that of their workers (it is indicative that the title of the relevant article is: '[E]xecutive pay increases despite attempt at regulation').<sup>183</sup>

The objectives of regulation may include limits on executive pay levels, but few would argue that the purpose of regulation is simply to constrain/cap executive pay. If this were the case, then UK executive pay regulation to date would have been a disaster. Pay levels have indeed soared; however, a more objective view is surely that the regulation of executive pay is about far more than simply attempting to restrain pay levels.

Barty has the correct take on all this. The key concern is 'rewards for failure'. Accordingly, regulation should focus on structuring executive pay in ways that oblige executives to share the downside suffered by shareholders when a business is unsuccessful (and vice versa). Although Powdrill would doubtless argue 'they are focusing on structure again', that would be seen by many commentators as being something of a counsel of perfection.

Greenbury's emphasis was on RCs' duties and accountabilities, together with enhanced disclosure of directors' pay. The pay aspect was limited to the exhortation that pay levels should be no higher than necessary. True, stress was placed in both Greenbury and Hampel on pay-for-performance, but this – plus subsequent codes/regulation/guidelines - is a world away from 'hard-wired' caps on executive pay. The focus instead is on transparency (so shareholders know how much directors are paid and the pay-performance linkage) and accountability. In this context, UK pay regulation over the past 35 years has been very beneficial. It justifies the obligations imposed, but detailed disclosure improvements are still required and the pay-performance linkage needs reform.

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<sup>183</sup> Deborah Hargreaves, HPC, quoted in Hywl Roberts, 'Executive Pay increases Despite Attempt at Regulation' (*HR Magazine* 2<sup>nd</sup> June 2014) < <http://www.hrmagazine.co.uk/hro/news/1144482/executive-pay-increases-despite-attempt-regulation> > Accessed 3rd July 2014.

## CHAPTER 5

### 5.1. Conclusions

UK executive pay regulation over the past 35 years has resulted in a far more transparent and accountable regime. On pay-performance linkage in particular though, much remains to be done regarding ‘rewards for failure’, the need for a longer-term time horizon and LTI design generally. Commentators may dispute whether regulation alone can remedy the perceived problems. For example, those who consider that executive pay is simply far too high argue that regulation could resolve this (even politicians who are not particularly ‘left leaning’ take this view sometimes; e.g., the House of Commons Treasury Committee’s comment ‘it should be the FSA’s function to regulate levels of the amounts of pay in the banking sector’).<sup>184</sup>

Those whose principal concern is ‘rewards for failure’, such as Barty, promote the use of deferral and ‘clawback’ arrangements – proposing that ‘50% of all variable compensation is deferred for a minimum of five years, with no vesting to be faster than straight line. As a result 150% of average variable compensation would be available for ‘clawback’ in the case of underperformance’.<sup>185</sup> This approach has more in common with Powdrill’s than some might appreciate. Powdrill mentions the PwC/LSE research project into the psychology of incentives: ‘most executives surveyed said they were driven by more than money, and many also reported that incentive schemes did not motivate them’.<sup>186</sup> PwC concludes: ‘[E]xecutives are risk-averse, don’t like complexity and discount deferred pay (...) we have had to pay executives more to compensate. If pay better reflected executive

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<sup>184</sup> House of Commons Treasury Committee ‘Banking Crisis: Reforming Corporate Governance and Pay in the City’ (2009), 22.

<sup>185</sup> Barty, note 58, 55.

<sup>186</sup> Powdrill, note 165.

psychology, maybe it could be lower'.<sup>187</sup> Although Powdrill considers that 'institutions are unlikely to champion a shift away from performance-reward any time soon' – and is likely to be correct in this regard – the TW/Main 2013 Study of institutional shareholders' views does reveal some common ground.<sup>188</sup> On pay-performance linkage institutional shareholders accepted that higher leverage can increase the likelihood of unintended consequences in the working of incentives.

This is relevant to the 'lottery issue' of EDs seeking high LTI opportunity because until fairly recently the institutional shareholder guidelines used effectively to stipulate (due to the 'no vesting below median comparative TSR performance provisions) that there was a 50:50 chance that none of an LTI award will vest. On top of this, the chances of vesting were very timing/data dependent .

The TW/Main Study also showed that institutional shareholders are keen 'to emphasise executive shareholdings over the long-term (...) including shareholding requirements, deferrals and longer vesting/holding periods for long-term incentives'.<sup>189</sup> What is stressed is not just incentive metrics but also the alignment of remuneration with strategy in terms of time horizon. Key additional points raised by institutional shareholders were simplifying LTIs and reducing pay leverage (with consequentially lower award values).

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<sup>187</sup> Powdrill, note 139, 6.

<sup>188</sup> Katharine Turner 'Executive Compensation: Investors' View on the New Executive Pay Environment in the UK' (Towers Watson 2013) <[www.towerswatson.com](http://www.towerswatson.com)> Accessed 5th June 2014.

<sup>189</sup> TW/Main, note 188.

Interestingly, only one of the institutional investors consulted their bondholder/fixed income colleagues. Bondholders tend to remain silent on executive pay issues (this would probably not remain the case if companies were to adopt Alex Edmans's proposal that CEOs should be paid via a combination of debt and equity).<sup>190</sup> The overall conclusion of the TW/Main Study is that '[F]und managers in general view pay increases subordinate to questions about the overall business strategy of investee companies'.<sup>191</sup> Kevin Keasey argues companies' executive pay arrangements have allowed institutional shareholders to keep their distance and minimise monitoring efforts and active engagement'.<sup>192</sup>

Institutional shareholders and RCs have difficult roles to fulfil and the demands upon them grow apace. There are limits too on how closely institutional shareholders can become engaged with their investee companies. Main's research shows what a difficult task RCs face in terms of professionalism, time commitment and review of payment outcomes. The solution to the UK's executive pay debate does not lie primarily in more regulation. This is underlined by Contraros when he states there is a 'need to prevent the negative elements of performance-based remuneration that were just as, if not more, responsible for the financial crisis as the weaknesses in remuneration structures themselves'.<sup>193</sup> This is also echoed by Stephen Haddrill's comment: '[R]emuneration of executives on the Board must also incentivise them to put the company's well-being before their own'.<sup>194</sup> Contraros's reference to 'ethics, honesty, integrity and risks' is important in this context.

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<sup>190</sup> Alex Edmans 'New Thinking on Executive Compensation: Pay CEOs with Debt' (*VOX EU* 13 July 2010) <<http://www.voxeu.org/article/new-thinking-executive-compensation-pay-ceos-debt>> Accessed 3rd June 2014.

<sup>191</sup> TW/Main, note 188.

<sup>192</sup> Kevin Keasey 'Executive Compensation in the UK' (2006) *Journal of Financial Regulation and Compliance*, 14 (3) 235-241.

<sup>193</sup> Contraros, note 167, 218

<sup>194</sup> Stephen Haddrill of FRC, in speech given on 26<sup>th</sup> April 2013 <<https://www.frc.org.uk/news>> Accessed 16<sup>th</sup> July 2014.

In relation to financial services, John Plender states: 'the financial system appears to have become an ethics-free zone' and 'at a personal level bonuses took precedence over virtually everything, including the customer (...)[A]s long as incentives are at odds with ethical requirements, common decency will be a minority pursuit. Scandals are inevitable'.<sup>195</sup> Plender states: 'boards have simply failed to recognise that pay and incentives were encouraging behaviour that was at odds with the claimed values of the organisation'. He argues that there needs to be 'a retreat from the obsession with punishing corporations rather than senior executives'. His concern is that: '[M]odestly refining the carrots and using the wrong sticks is a poor formula for rebuilding the moral capital stock. There has to be a more radical way'.

Anthony Hilton refers to Andrew Smithers's words: '[M]odern incentives have increased the difference between the short-term interests of management and the long-term interests of shareholders (...)[M]odern incentives are thus contrary to the interests of long-term shareholders'.<sup>196</sup> Smithers's view is that managers are obsessed with their STIs. Hilton states: 'the whole idea of engaging with underperforming companies is a mistaken attack on the symptoms of corporate decline, and this prevents there being a proper focus on the root cause of decline, which is to be found in the way top executives are paid'.

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<sup>195</sup> John Plender 'The Crisis Shows Moral Capital in Secular Decline' *Financial Times* (London, 10<sup>th</sup> June 2014).

<sup>196</sup> Anthony Hilton 'Shake Up Executive Pay for a Real Bonus' *Evening Standard* (London, 3<sup>rd</sup> July 2014), 58.

## **5.2. Recommendations**

Social cohesion is threatened by rancorous criticisms of executive pay – with diversion away from the real goal of how best to achieve sustainable economic growth and enhanced prosperity of the population generally, to a Them-v-Us conflict. Further work will be required to formulate robust improvements that secure the buy-in of key parties - but some initial recommendations are set out below.

### **Recommendation 1: Regulation.**

The regulatory provisions which came into force this year should be given time to bed-down. Any review will probably take place anyway, on the first to occur of a change of government, another economic downturn or a series of corporate scandals. In due course, review consideration should be given to implementing Knight's disclosure proposals (particularly on 'realisable value'), plus Barty's (on deferral of variable pay) and also addressing the disclosure valuation issues discussed already in relation to LTIs and pensions. Further global initiatives on regulation and corporate governance codes/remuneration guidelines would also be welcome, but are not covered in this paper.

### **Recommendation 2: Institutional shareholders.**

Kay's Investor Forum should devote efforts to institutional investors' 'short-termism' and their flawed remuneration incentives. Once institutional shareholders have taken on their own challenges, they should be better placed to introduce remuneration guidelines that promote a long-term mind set and rewards for EDs. It is encouraging that since Main's 2007 findings there is now less reliance in UK LTIs on comparative TSR, in favour of using that metric in combination with an

absolute business performance measure(s). Institutional shareholders should also address the situation where a RC can be caught between the Scylla of one set of guidelines and the Charybdis of another (e.g., in respect of a particular LTI design feature).

**Recommendation 3: Remuneration committees.**

Main's research puts paid to any suggestion that, due to the improvements in RC governance/practice post-Cadbury, nothing further needs to be done. RCs undoubtedly important role as directors generally (e.g., on company strategy) needs to be supplemented by greater 'professionalism' in terms of the RC being thoroughly committed, as Main recommends, to 'calibrating the LTI with critical success factors of the company's business strategy' and to 'examining the entire portfolio of unvested and vested – but unexercised - executive reward while considering the composition of the latest year's reward'.<sup>197</sup>

Implementing Main's key recommendations will inevitably require additional RC training (perhaps even introduction of a formal 'ticket' for RC Chairs, at least) and time devoted to reading papers/meetings/communicating with EDs and institutional shareholders. There needs to be greater recognition and appreciation of the value of RC Chairs (who should be highly experienced in both remuneration and business matters). NEDs should be well remunerated for devoting the time needed to fulfil their duties. As Aine Hurley states: '[M]atching the structure and quantum of remuneration to the precise needs of the particular company is one of the most important, if not the most important, roles in the success and/or survival of the business'.<sup>198</sup>

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<sup>197</sup> Main, note 2, 38.

<sup>198</sup> Aine Hurley, Virginia Bottomley and Colin Wall (2008) Odgers Berndtson Newsletter [www.odgersberndtson.co.uk](http://www.odgersberndtson.co.uk).

#### **Recommendation 4: Remuneration committee advisors/in-house executive compensation HR**

##### **specialists.**

UK remuneration consultants agree to be bound by the VC, are subject to their respective employing firms' business conduct protocols, and in many cases are additionally bound by codes put in place by their own professional bodies. Therefore, the burden of proving any necessity for additional regulatory controls on remuneration consultants should be on those who make them.

In-house executive compensation HR specialists are, ironically, not only subject to more risk of being 'leant on' by corporate management but are also not bound by the VC (as they do not act as appointed independent advisors to the RC). One way to promote higher professional standards in respect of both remuneration committee advisors and in-house executive compensation specialists would be to establish a professional qualification (on a licence-to-practise basis) for at least the former (many of the latter are recruited from the ranks of the former anyway).

#### **Recommendation 5: Remuneration packages.**

The structure of UK incentive packages needs reform. EDs regard LTIs as a complete 'lottery' and massively discount the value of LTIs at the time of award. EDs' argument runs that to secure any vesting value they need to remain in service for at least three years in normal circumstances (the Fidelity initiative for a 'five-year hold' is currently trending the period up to five years), plus often a comparative TSR hurdle needs to be attained (with a straight line vesting schedule to upper quartile comparative performance attainment) – so their own company's own performance may well not be the only or key determinant of vesting. LTI opportunity has increased because EDs may seek to 'max out' in the performance cycles, perhaps one cycle in three, where there may be solid 'bounceback between previous poor performance and current solid performance. This increases the chances of 'rewards for failure' occurring.

EDs also focus on STI opportunity – where a single year performance time horizon gives better ‘line of sight’. RCs have collaborated in this process because they feel, as Main found in his research, far more comfortable in setting absolute business performance metrics and ‘calibration’ to annual business budgets/strategy.<sup>199</sup> This unvirtuous circle is completed by institutional shareholders who, despite articulating a long-term interest, are driven by their own short-term demons (in terms of retaining mandates/confidence of their own investors).

EDs, RCs and institutional shareholders are all thinking too short-term. A starting point would be to accept that the UK’s incentive pay regime is somewhat broken – and fixing it will require co- operation between the parties concerned. Barty is correct in arguing that compensation needs to be tied to the long-term performance of companies: ‘recently more compensation is being paid out in shares, but the average period over which incentive programmes are assessed is three years, which we believe is too short a time to truly reflect the long-term performance of a company.’<sup>200</sup> He states: ‘[T]he extension of long-term incentive plans to five years would result in some pay would be exposed to the performance of the company over ten years thereby truly linking pay to the long- term success of the company’.<sup>201</sup> Barty additionally proposes that 50% of all variable pay (STI and LTI) should be deferred for a minimum of five years.

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<sup>199</sup> Main, note 2, 17.

<sup>200</sup> Barty, note 58, 8.

<sup>201</sup> Barty, note 58, 9.

The combination of a five-year performance period, with the deferred portion paid out on a straight line over the next five years, is a sound concept – but needs other LTI design changes as well if it is to work effectively.

Extending the performance period to five years, and ‘leaking out’ deferred payouts over the following five, is an excellent counter to ‘rewards for failure’ (with strong ‘clawback’ provisions), and would only reward genuinely long-term success’. However, it does not avoid the issues raised in EDs’ perception that current UK LTI performance conditions stipulated by institutional shareholders are too comparative and insufficiently geared off absolute company performance. The solution is to build on Barty’s proposals by adding in elements of the PwC/LSE Study referred to by Powdrill.<sup>202</sup> This provides a future paradigm for UK incentives that is a more practical, real-world solution than adopting Powdrill’s ‘purist’ approach.

Barty is not so much concerned about executive pay levels as such, he is worried about ‘rewards for failure’ – whereas Powdrill is very much of the view that executive pay is too high and incentives are part of the problem. In this light, Powdrill’s criticism of ‘career shares’ is understandable – and is supported in certain respects by the government’s refusal to give explicit legislative support to Kay’s proposals in this regard<sup>203</sup> (Lord Myners also sees the practical difficulties in the ‘career share’ concept<sup>204</sup>) – but TW/Main’s Study shows that ‘career shares’ have considerable performance characteristics, including limiting ‘rewards for failure’.<sup>205</sup> Barty’s proposals capture the best points of ‘career shares’ without actually going down that route. This is a pragmatic approach – focusing on

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<sup>202</sup> Powdrill, note 150, 5–6.

<sup>203</sup> House of Commons BIS Committee, note 139, 30.

<sup>204</sup> House of Commons BIS Committee, note 139, 28.

<sup>205</sup> Main ‘New Ideas to Reward Sustained Performance’ (Towers Watson 2011) <[www.towerswatson.com](http://www.towerswatson.com)> Accessed 5th June 2014.

the long-term nature of five-year rolling performance periods, whilst avoiding institutional shareholder concerns over the whole concept of 'career shares'.

The key point is that the UK's current executive incentives regime needs to change to being longer-term in focus, whilst mitigating the downsides in LTI participant perception otherwise inherent in this. EDs' natural concern regarding long LTI performance periods is understandable, but can be reduced by using metrics they feel they can influence and which reward them commensurately.

**Recommendation 6: Corporate ethics/behaviour.**

Regulation has its limits. Commentators may argue about where these lie, but the need for sound business ethics and behaviour runs through the whole UK executive pay debate. Responsible capitalism – on which the UK's prosperity depends – demands that all parties, whether board directors generally, RC members (and their external/internal advisors), institutional shareholders and other stakeholders, must pay due regard to the ethical considerations referred to by Contraros and Plender. The difficulties involved in promoting and securing adherence to such behaviour are admittedly large – particularly in a world where competing territories may seek to secure business advantage/regulatory arbitrage - but this makes it all the more essential to rise to the challenge.

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Softing AG 'German Corporate Governance Code' (*Softing* 2013)  
<<http://investor.softing.com/en/corporate-governance/corporate-governance-code>> Accessed  
25<sup>th</sup> June 2014.

The World Bank GDP Ranking (2012) <<http://data.worldbank.org/data-catalog/GDPranking-...>>  
Accessed 24<sup>th</sup> June 2014.

Chuka Umunna 'Labour will Address Executive Pay and Rewards for Future'. Speech to the HPC and  
IPPR on 12<sup>th</sup> January 2012 <<http://www.labour.org.uk/labour-will-address-executive-pay.2012-01-12>> Accessed 2<sup>nd</sup> July 2014.

#### **Appendix 4**

**Letter of invitation ('RIP1'), to prospective interviewees to take part in the Research Interview Programme ('RIP'), enclosing the Research Interview Invitation Pack ('RIInviPack')**

## Appendix 4

### Letter of invitation ('RIP1'), to prospective interviewees to take part in the Research Interview Programme ('RIP'), enclosing the Research Interview Invitation Pack ('RIInviPack')

Mr Calvin Jackson  
Charter Chambers  
33 John Street  
London  
WC1N 2AT

18<sup>th</sup> April 2016

Dear [],

**PhD Study:** UK Remuneration Committee Advisory Services

**Invitation:** To participate in a semi-structured research interview programme

**Research Institute:** Institute of Advanced Legal Studies  
(University of London, School of Advanced Study)

**Researcher:** Calvin Jackson (25 years' experience as remuneration committee advisor – retired end-2010 from the firm formerly known as 'Towers Watson')

**Title of PhD Study:** 'Promoting Highest Professional Standards in UK Remuneration Committee Advisory Services'.

I am currently carrying out PhD Study into UK remuneration committee advisory services. I retired as an executive remuneration consultant five years ago, having been invited to return to my much earlier career of practising at the Bar. My special interest at the Bar is financial crime and regulatory matters – being qualified both in Law and Financial Regulation (please see the enclosed biographical details). The PhD Study is being undertaken at The Institute of Advanced Legal Studies, where in 2014 I was awarded an LLM (with Distinction) in International Corporate Governance and Financial Regulation.

I started my PhD Study in September 2015. My Supervisor at IALS is Professor Kern Alexander of Zurich, London and Cambridge Universities – a lawyer with an international reputation for financial regulation. Professor Alexander is the appointed expert advisor to the SFO on Libor/FX and is a specialist advisor on financial regulation (including banking sector pay regulation) to the European Parliament.

The title of my PhD Study is "Promoting Highest Professional Standards in UK Remuneration Committee Advisory Services". It will focus on how best to ensure remuneration consulting firms and their consultants (together: 'the remuneration consultancy industry') and, indeed, remuneration committees and company stakeholders more broadly, can secure the benefits of highest professional standards in the provision of such services.

Continuation...

Invitation to Participate in Interview Programme:

The Institute of Advanced Legal Studies, University of London

I believe the scale and breadth of the proposed research exceeds that of previous UK exercises. The interview programme involves up to 60 qualitative one-hour interviews of executive remuneration consultants, remuneration committee members, 'in-house' corporate specialists (ie., executive reward directors, HRDs, general counsel and group secretaries), institutional shareholders and their representative bodies, proxy advisors and regulators. I am pleased to be able to report that sufficient prospective interviewees have already informally indicated their agreement to participate, to ensure that the interview programme will proceed. Other key factors of the proposed research exercise are:

- **Executive Compensation Experience:** I have 25 years' experience as a remuneration committee advisor, not just in the UK but in Continental Europe, USA, Middle East and Far East. I shall conduct all the interviews personally, by way of face-to-face meetings in London/Home Counties (or by way of Skype/telephone conference call if particular interviewees are based elsewhere)
- **Other Professional Experience:** I have a total of 10 years' experience as a practising lawyer – which I suggest puts me in a position to understand fully issues such as 'conflicts of interest' and 'independence', together with 'licence to practise', 'accreditation' and 're-validation' (I have also recently completed a three-year appointment as Disciplinary Chair at The Chartered Institute of Personnel and Development)
- **Total Objectivity and Independence:** I have chosen to fund the research entirely myself and I have no formal, nor informal, links with any Professional Services Firm (Big 4 Chartered Accountants/Actuarial and Benefits Consultancies/Independent 'Boutique' remuneration committee consultancy firms). Additionally, those participating in the interview programme will receive no payment from me (nor any recompense for travel or accommodation costs incurred)
- **Strict Confidentiality and Ethical Standards:** The Research Ethics Committee of the School of Advanced Study, University of London, has approved (in March 2016) my Ethics Review Request. The research will be carried out in accordance with the Code of Good Practice in Research and Research Ethics Policy of the School of Advanced Study, University of London (please see the enclosed CGPR and REP, plus Informed Interviewee Consent Form – 'IICF'). These documents are also available online at <http://www.sas.uk/about-us/policies>. I anticipate SAS will be issuing new policies in the near future and I undertake to provide interviewees with copies of/references to these, on request. You will see that the IICF makes it explicitly clear that (unless you advise otherwise) any views you express in the interview will be treated as being your personal ones, rather than those of any organisation that employs you/to which you belong. Any comments/remarks you may make that are commercially-sensitive, or could be construed as an admission against interest, may be edited out of the final version of the transcript at your request. The identity of interviewees will be kept strictly confidential and all papers and tapes relating to interviews will be destroyed once the research has been completed.

The interview invitations will be sent out in three 'waves'(to be completed by May 2016) with interviews being held between September and December 2016. The process envisaged is:

- **Wave 1:** Invitations sent to all member firms of the Remuneration Consultants Group (and to the RCG itself), together with a number of selected US firms/consultants

Continuation...

Invitation to Participate in Interview Programme:

The Institute of Advanced Legal Studies, University of London

- **Wave 2:** Invitations sent to remuneration committee members, 'in-house' executive remuneration specialists (executive reward directors, HRDs, general counsel and group secretaries)
- **Wave 3:** Invitations sent to institutional shareholders and their representative bodies, proxy advisors, regulators and the Department of Business, Innovation and Skills.

I anticipate that the findings of the interview programme will be collated by Easter 2017. These will then be made available to those who have participated in the interview programme (I anticipate that the PhD Study itself will be completed in September 2018). The interview findings will be incorporated into a written report for interviewees; however, I would be happy as well to make myself available in London (in Early Summer 2017) to present the findings in person if particular interviewees would find this helpful. My aim throughout is to ensure that interviewees are given the opportunity to acquire new insights and to have privileged access to the findings of the research – so that they will conclude in due course that their participation in the interview process has been thoroughly worthwhile.

Given the semi-structured nature of the interviews, I do not propose to prepare a detailed 'script' of questions; however, I shall circulate prior to interview a 'checklist' of key topics to be covered. The advantage of this is that an interviewee will have notice of what their interview will encompass (with sufficient time for them to give thought to formulating specific views etc). It will also enable me after the interview to 'code' particular responses when carrying out analysis of the transcribed audio-recordings. I propose to record all interviews unless in a particular case an interviewee prefers me simply to take notes. It will be appreciated that the latter may not be as satisfactory a way to capture the full experience and contents of the interview.

By way of providing a flavour of the interview topics/questions (in Early Summer 2016 I shall be 'field-testing' the proposed 'checklist' with a small selected panel – I am also happy to consider including any topics that may be suggested by those who agree to participate in the interview programme). At present, I anticipate including:

- 1) How the provision of UK remuneration committee advisory services is currently working, from the respective viewpoints of institutional investors (and their representative bodies), proxy advisors and remuneration committee advisory consultancies (together with their consultants), the RCG and remuneration committee Chairmen/members (including pay determination processes and pay outcomes)
- 2) The provision of remuneration committee advisory services, via Big 4 Chartered Accountants, ABC firms and independent 'boutiques' - including how potential 'conflicts-of-interest' are currently addressed, where a Professional Services Firm (whether Big 4 or ABC) provides other advisory services to the client company as well as to the remuneration committee concerned
- 3) Examining the current approach of a Code of Conduct adhered to by members of the present Remuneration Consultants Group, and how this is working in practice.

Continuation...

Invitation to Participate in Interview Programme:

The Institute of Advanced Legal Studies, University of London

- 4) The ethical and professional standards of remuneration committee consultants (in an individual context as well as that at their employing firm). How best to ensure that consultants have appropriate technical expertise, plus operational processes and ethical training to support the provision of their advice to remuneration committees (including whether there might be a specialised 'executive remuneration advisory' accreditation – given that the provision of such advice is not currently a licence to practise profession, with potential disciplinary sanctions etc).

I propose to include in the interview discussions a comparative dimension, covering practices in the USA, EU, France, Germany and Japan. Additionally, I propose to send interviewees prior to meeting with them, a very brief questionnaire for completion. This will gather information on the educational/professional background of remuneration committee advisors, to provide appropriate context for discussion of (4) above. Lastly, it would be helpful if interviewees could, if applicable, let me have at the meeting a copy of their employing firm's protocols for transacting business (usually called 'Principles of Business', or similar).

I would be happy to answer any queries you may have - please e-mail me at [Calvin.Jackson@CharterChambers.com](mailto:Calvin.Jackson@CharterChambers.com) or ring my mobile. I enclose a stamped addressed envelope for your IICF response - please post it to me at Charter Chambers, 33 John Street, London WC1N 2AT. You will see that the IICF contains a number of 'tick boxes', including one for 'consenting to participate' and another for 'declining to participate' (the reason for including the latter on the form is that it will save me troubling with follow-up actions any invitee who declines to participate). I anticipate that those who agree to participate in the interview programme are likely to tick boxes 4 (b) and (d).

I do hope you decide to participate in the research, which I anticipate may well be of significant importance to the future of the UK remuneration committee advisory industry, remuneration committees and company stakeholders more generally.

My best wishes,

Calvin Jackson

- Enc:
- (1) Biographical Details: Calvin Jackson
  - (2) Code of Good Practice in Research: School of Advanced Study (University of London)
  - (3) Research Ethics Policies: School of Advanced Study (University of London)
  - (4) Informed Interviewee Consent Form: School of Advanced Study (University of London)
  - (5) Stamped Addressed Envelope (for IICF Responses).

## **Appendix 5**

**RInviPack comprising:**

**5.1. Biographical details: Calvin Jackson**

**5.2. Code of Good Practice in Research,  
School of Advanced Study, University of London**

**5.3. Research Ethics Policies,  
School of Advanced Study, University of London**

**5.4. Informed Interviewee Consent Form,  
School of Advanced Study, University of London**

## Appendix 5

RInviPack comprising:

- 5.1. Biographical details: Calvin Jackson
- 5.2. Code of Good Practice in Research,  
School of Advanced Study, University of London
- 5.3. Research Ethics Policies,  
School of Advanced Study, University of London
- 5.4. Informed Interviewee Consent Form,  
School of Advanced Study, University of London

### 5.1. BIOGRAPHICAL DETAILS

## Calvin Jackson Biographical Details

0207 618 4400 (Chambers)

[calvin.jackson@charterchambers.com](mailto:calvin.jackson@charterchambers.com)

[calvin.jackson@postgrad.sas.ac.uk](mailto:calvin.jackson@postgrad.sas.ac.uk)

**Dual qualified in Law and Financial Regulation. Currently practising as a barrister (Charter Chambers, London). Particular interest in financial crime, compliance and regulation. 25 years' executive remuneration advisory experience at Board level worldwide on the corporate governance and regulation of financial and corporate sector remuneration arrangements (including cash and equity incentives).**

### Career Summary

#### Present

- **January 2011 – present: Charter Chambers, 33 John Street, WC1N 2AT Practising Barrister.** Chambers of Nicholas Rhodes QC and Neil Hawes QC. Special interest in financial crime, bribery, Libor/FX misconduct and FCA disciplinary/enforcement matters etc. Registered with BSB for Public Access Instructions and Litigation.
- **2013 – present: Completed postgraduate qualification in International Corporate Governance and Financial Regulation (LLM, with Distinction) at The Institute of Advanced Legal Studies, University of London. Now undertaking PhD Study at IALS (since September 2015): 'Promoting Highest Professional Standards in UK Remuneration Committee Advisory Services'** Supervisor: Professor Kern Alexander (member of European Parliament's Expert Panel on Financial Services - including financial services pay regulation - and appointed Specialist Advisor to UK Parliament and Serious Fraud Office – including Libor/FX etc).

- **2013 – 2016: Disciplinary Panel Chair at The Chartered Institute of Personnel and Development** – sitting as panel chairman on disciplinary hearings (three-year voluntary part-time appointment).

### Historic

- **1992 – December 2010: Towers Watson (Actuaries & Consultants) – ‘TW’ has now become ‘Willis Towers Watson’. Director, Consulting Services: European Executive Compensation Practice.** Executive pay consultant to remuneration committees worldwide of multi-national organisations (including banks and insurance companies), private equity firms and family offices. Joined R Watson & Sons (Actuaries & Consultants) in 1992, which merged as Watson Wyatt Worldwide in 1995 (became Equity Partner) and merged again as Towers Watson in 2009. At various times held roles of Head of Remuneration Planning, Head of Executive Compensation (and member of Professional Risks Steering Group).
- **1987 – 1992: Deloitte Haskins & Sells, subsequently merged firm of Coopers & Lybrand Deloitte (now PwC): Senior Tax Manager, then Principal, London Tax Practice** - focusing on tax-efficient remuneration, onshore and offshore trusts, plus cash and equity incentives etc.
- **1985 – 1987: WM Mercer (Actuaries & Consultants) Senior Executive Remuneration Consultant, London Practice.**
- **1983 – 1985: The Office of the Director of Public Prosecutions, London – Legal Counsel.** Focus on large-scale crime, financial fraud and corruption.
- **1981 – 1983: QEB – Chambers of Dan Hollis QC, Queen Elizabeth Building, Temple (now QEB – Hollis Whiteman Chambers).** Pupillage (12 months), then practising at Bar for further 12 months
- **1978 – 1981: Partner in family antiques business.** Dealing in fine clocks, furniture and silver (worked in the business part-time between 1972-1978, then full-time for three years thereafter).
- **1976 – 1977: Chambers of Maurice Price QC, 2 New Square, Lincoln’s Inn.** Chancery pupillage (six months).
- **1976 – 1977: Holborn Law Tutors: Part- time Lecturer in Company Law.**
- **1971 – present: See *Academic Career* below.**
- **1970 – 1971: IBM Customer Test Centre, Croydon.** Computer Room duties.

## Academic Career

- **2015 onwards: IALS, University of London: PhD Study.**
- **2013 – 2014: IALS, University of London: LLM (with Distinction) in International Corporate Governance, Financial Regulation and Economic Law.**
- **1977 – 1978: Corpus Christi College, University of Cambridge (Faculty of Law, Research Student): MPhil.**
- **1975 – 1976: King’s College, University of London: LLM.**
- **1975: Passed Bar Examinations and Called to the Bar (Lincoln’s Inn).**
- **1971 – 1974: King’s College, University of London: LLB (Hons).**

## Publications and Speaking Engagements

### Publications:

- "The Corporate Governance and Regulatory Aspects of Executive Pay". Academic paper (August 2014) [assets/img/uploads/InsiderDealing,LIBORandForExPresentation.pdf].
- "Beating Bribery and Corruption", Benefits and Compensation International (September 2011) [Barrister/2BBFF0A2/Nicholas Rhodes QC.aspx].
- "Corporate Governance Developments in Europe": RREV Institutional Shareholder Newsletter.
- "Corporate Governance and Executive Reward": International Corporate Governance Review.
- "Corporate Governance Update": Financier Worldwide.
- "Corporate Governance and Executive Pay": Business Credit.
- "Practical Remedies for Recovery Companies": Practical Law Company (joint author).
- "Market Consistent Embedded Value and Incentive Pay Arrangements": Watson Wyatt Research Publication (joint author).
- "Effective Share Incentives in Recessionary Times": Watson Wyatt Research Publication (joint author).
- "Effective Remuneration Committees": Watson Wyatt Research Publication (joint author).
- "Questioning the Remuneration Committee Process" and "The Remuneration Committee and Strategic Resource Management" (co-author, Research Publication of Edinburgh University Business School).

- “FSA Draft Code of Practice on Remuneration Policies – Is the Baby Being Thrown Out With the Bathwater?”: Watson Wyatt Research Publication.
- “G20 Meeting – Principles for Sound Remuneration Practices in Financial Services”: Watson Wyatt Research Publication
- “Executive Pay Practices Globally - Is convergence on the way?": Benefits and Compensation International (joint author).
- “ABI’s Response to FSA’s Consultation Paper: Reforming Remuneration in Financial Services”: Watson Wyatt Paper.
- “The FSA’s Consultation Paper: Challenges for Risk Functions”: Compliance Monthly.
- “Executive Remuneration Governance in Banks and Other Financial Services Institutions – Tightrope Walker”: Watson Wyatt Research Paper.
- “Consultation Response to Proposed Changes to UK Combined Code”: Watson Wyatt Submission to FRC.

*Speaking Engagements:*

- “Keystones of UK Financial Sector Regulation (Charter Chambers Seminar).
- “Principles of UK Corporate Governance” (Charter Chambers Seminar).
- “Update on Insider Dealing and Libor/Forex Scandals” (Charter Chambers Seminar) [assets/img/uploads/Insider Dealing, LIBOR and ForEx Presentation.pdf].
- “Criminal Liability of Companies and Unincorporated Associations” (Charter Chambers Seminar).
- “Update on Bribery and Corruption” (Charter Chambers Seminar).
- “US and European Remuneration Developments” (Watson Wyatt Rome Seminar).
- “Reward Strategy to Save Corporate Costs” (Watson Wyatt Seminar).
- “Lloyd’s Market Incentives” (Corporation of Lloyd’s Seminar).
- “The Higgs Review” (Norton Rose Seminar).
- “Insuring the Future” (Watson Wyatt Insurance & Financial Services Seminar).
- “Incentives in Corporate Recovery Situations” (IBC Dublin Seminar).
- “Future of Share Incentives in Life Sciences Sector” (IBC London Seminar).
- “US and European Incentive Developments in Hi-Tech Sector” (Watson Wyatt Seminar).

- “Executive Directors’ Remuneration” (Norton Rose Seminar).
- “Share Plan Valuation Methodology” (IBC London Share Schemes Seminar).
- “Remuneration Committee Advice” (UK Shareholders’ Association).
- “Impact of IFRS on EPS, Exceptionals and Goodwill Amortisation” (Watson Wyatt Seminar)
- “Share Plan and Executive Pension Developments” (Russell Reynolds Seminar).
- “Executive Compensation Strategy” (Conference Board Brussels Seminar).
- “Developments in European Corporate Governance” (Conference Board Netherlands).
- “Executive Remuneration Packages” (Seminar for Russian HR Directors, Watson Wyatt London).
- “Global Corporate Governance and Pay Practices” (Watson Wyatt Webcast).
- “Performance Alignment and Corporate Governance” (Watson Wyatt Video).
- “Alignment with Performance and Direction of Executive Reward” (Watson Wyatt Video).
- “Remuneration Committee Process and Performance” (Watson Wyatt Video).
- “AGM Season Review – Compliance and Innovation in the FTSE 100” (Watson Wyatt Video).
- “Changes in Shareholder Guidance on Executive Pay” (Watson Wyatt Video).
- “Effective Share Incentives in an Economic Downturn” (Watson Wyatt Video).

## 5.2. CODE OF GOOD PRACTICE IN RESEARCH



# Code of Good Practice in Research

## 1 Introduction

The School of Advanced Study is required by the UK Research Councils and other major funding bodies to have in place a code of good practice for the conduct of research which they fund. This document specifies the Code of Good Practice for researchers at the School of Advanced Study and provides guidance on the standards expected. It follows closely the guidelines issued by the ESRC.

## 2 Professional Standards

In the conduct of all research, the School of Advanced Study expects the following general principles and standards to be understood and observed. These apply to all School of Advanced Study staff, research students, and to those who are not members of the School, but who are conducting research under its auspices, such as Visiting Fellows (all categories hereafter referred to as 'researchers').

## 3 Integrity

3.1 All researchers are expected to be honest in respect of their own actions in research and in their responses to the actions of other researchers. This applies to the whole range of research, including generating and analysing data, publishing results, and acknowledging the direct and indirect contributions of colleagues.

3.2 Plagiarism, deception or the falsification or fabrication of results will be regarded as a serious disciplinary offence.

3.3 Researchers are encouraged to report cases of suspected misconduct and to do so in a responsible and appropriate manner.

3.4 Researchers should declare any real or potential conflicts of interest before undertaking the research.

## 4 Openness

4.1 While recognizing the need for researchers to protect their own research interests, the School of Advanced Study encourages researchers to be as open as possible in discussing their research with other researchers and with the public.

4.2 Researchers should be prepared to question the outcome of their research and to check results before being made public.

4.3 Once results have been published, the School of Advanced Study expects researchers to make available relevant data and materials to other researchers, on request, provided that this is consistent

with any ethics approvals and consents which cover the data and materials and any intellectual property rights in them.

4.4 Senior staff should ensure that a research climate of mutual co-operation is created in which all are encouraged to develop their skills and in which the open exchange of ideas is fostered.

## **5 Guidance from Professional Bodies**

5.1 Where available, the School of Advanced Study expects researchers to observe the standards of research practice set out in guidelines published by scientific and learned societies, and other relevant professional bodies.

5.2 All researchers should be aware of the legal requirements which regulate their work.

## **6 Supervision and Training**

Appropriate supervision of researchers (including the training of supervisors) is an essential part of good research conduct. All researchers should undertake appropriate training, for example in research design, regulatory and ethics approvals and consents, confidentiality, data management, record keeping, and data protection.

## **7 Documenting Results and Storing Primary Data**

7.1 There should be clarity at the outset of the research programme as to the ownership of, where relevant:

- data used or created in the course of the research; and
- the results of the research.

7.2 Researchers should keep clear and accurate records of the procedures followed and the approvals granted during the research process. This is necessary both to demonstrate proper research practice, but also in case questions are subsequently asked about either the conduct of the research or the results obtained.

7.3 For similar reasons, primary data generated in the course of research must be kept securely in paper or electronic format, as appropriate and held normally for a period of five years (or as required by the funding body) after the completion of a research project. Backup records should always be kept for data stored on a computer.

## **8 Ethical Practice**

8.1 The School of Advanced Study requires researchers to comply with the requirements of both the School of Advanced Study's Ethics Policy and Procedures issued by School Ethics Committees.

8.2 Researchers should ensure the confidentiality of personal information relating to the participants in research, and that the research fulfils any legal requirements such as those of the Data Protection Acts.

## **9 Publication Practice**

9.1 The School of Advanced Study encourages the publication of the results of research in an appropriate form. Principal authorship and other publication credit should accurately reflect the relative scientific or professional contribution of the individuals involved, regardless of their relative status.

## **10 Applications and Project Management**

Researchers should take all reasonable measures to ensure:

- the accuracy and completeness of information contained in applications for funding, and
- if an application is successful, compliance with the terms and conditions specified by the funding body.

## **11 Misconduct in Research**

Failure to comply with this Code may give rise to an allegation of misconduct. See below for the policy and procedures for responding to allegations of misconduct in research.

## **12 Evaluation**

Institute Directors must ensure that all researchers are aware of the requirements of this Code and have procedures in place for checking that they do so.

# **Policy and procedures for responding to allegations of misconduct in research**

## **1 Policy on Research Conduct**

This policy and procedures applies to all members of the School of Advanced Study involved in research. This includes all School of Advanced Study staff, research students, and to those who are not members of the School, but who are conducting research under its auspices, such as Visiting Fellows.

## **2 Principles of Good Practice in the Conduct of Research**

2.1 The School of Advanced Study's code of good practice in the conduct of research (see above) sets the following principles:

2.2 All those to whom the policy applies are expected to:

- maintain professional standards
- be familiar with guidance on best research practice, for example in relation to matters of policy, ethics, finance and safety
- observe legal and ethical requirements laid down by the School of Advanced Study or other properly appointed bodies involved in the research field
- recognise the importance of good leadership and co-operation in research groups
- take special account of the needs of young researchers
- document results and keep secure primary data
- question findings
- attribute honestly the contribution of others
- take steps to ensure the safety of all those associated with the research
- report any conflict of interest, actual or prospective, to the appropriate person.

## **3 Definition of Research Misconduct**

3.1 Research misconduct includes the following, whether deliberate, reckless or negligent:

- failure to obtain appropriate permission to conduct research
- deception in relation to research proposals
- unethical behaviour in the conduct of research, for example in relation to research subjects
- unauthorised use of information which was acquired confidentially
- deviation from good research practice, where this results in unreasonable risk of harm to others
- fabrication, falsification or corruption of research data
- distortion of research outcomes
- dishonest misinterpretation of results
- publication of data known or believed to be false or misleading
- plagiarism, or dishonest use of unacknowledged sources
- misquotation or misrepresentation of other authors
- inappropriate attribution of authorship
- fraud or other misuse of research funds or research equipment
- attempting, planning or conspiring to be involved in research misconduct

- inciting others to be involved in research misconduct
- collusion in or concealment of research misconduct by others.

3.2 It does not include honest error or honest differences in interpretation or judgement in evaluating research methods or results, or misconduct (including gross misconduct) unrelated to research processes.

3.3 Fraud or other misuse of research funds or research equipment may be dealt with under separate financial regulations.

#### **4 Procedure for Investigation of Suspected Research Misconduct**

##### *Instigation of Proceedings*

4.1 The School of Advanced Study has a responsibility to investigate allegations of research misconduct fully and expeditiously. It also has a responsibility to protect researchers from malicious, mischievous, or frivolous allegations.

4.2 All those to whom this policy applies should report any incident of misconduct, whether witnessed or suspected. Members of staff and research students are encouraged to raise concerns about suspected research misconduct in confidence with their Director, or the Dean. Those who raise concerns in good faith will not be penalised in any way for doing so. Allegations should normally be made in writing, accompanied by any available supporting evidence.

4.3 In the event that serious allegations are made, they will be referred to the Dean who may either initiate immediate action under the appropriate disciplinary procedures or, appoint an investigation committee to consider the allegations.

##### *Appointment of Investigation Committee*

4.4 An investigation committee will normally consist of three members: a member of the same institute unconnected with the allegation, a member of staff from another institute and the Dean or his/her nominee, who shall chair the committee. At least one member should have expert knowledge of the area of research involved. The person(s) against whom the allegation is made (the respondent) and the person(s) making the allegation ('the complainant') shall be informed of the decision to appoint an investigation committee and shall be given the opportunity to comment on the proposed membership.

4.5 The investigation committee shall take all reasonable steps to preserve the anonymity of the respondent and the complainant, and to ensure that the investigation is undertaken as expeditiously as possible. The investigation committee may seek legal advice.

4.6 The Chair will define the scope of the investigation in written terms of reference to the investigation committee.

##### *Investigation Report*

4.7 The investigation committee will produce a report stating: the procedures under which the investigation was conducted; how information was obtained; the findings of the committee and the

basis for these; a summary of the views of the respondent; and a description of any sanctions recommended by the committee.

4.8 The report shall be submitted to the Vice Chancellor. The investigation committee may also make recommendations to promote best practice in the conduct of research.

*Outcome and action*

4.9 On receipt of the report by the Vice Chancellor, and with his/her approval, the Dean shall proceed as follows:

(a) In the event that the investigation committee has found no evidence of misconduct, the complaint shall be dismissed.

(b) In the event that a complaint is upheld, but the offence found to be insufficiently serious to warrant formal disciplinary proceedings, the matter may be referred to the institute Director or other appropriate individual for resolution.

If the investigation has uncovered prima facie evidence of serious misconduct, then the matter shall be dealt with under the appropriate University disciplinary procedures.

4.10 If the investigation committee finds the allegation to have been malicious or mischievous in nature, the Dean shall consider whether disciplinary action should be taken against those making the allegation.

4.11 Where the research is funded in whole or part by an outside grant, such body shall be informed of the investigation and any referral under disciplinary regulations.

### 5.3. RESEARCH ETHICS POLICIES



## Research Ethics

### Background

The School's ethics policy and procedures were revised in 2010 in the light of the new ESRC framework for research ethics, and to bring them in line with the UKRIO Code of Practice for Research guidelines.

A relatively small part of the research carried out in the School involves human participants, only very occasionally involving children. However, some research will involve sensitive topics (political behaviour, experience of violence, exploitation, displacement) and will research in groups requiring specialist access (for example, ethnic or cultural groups, native peoples or indigenous communities).

### Procedure

All applications for research within the School (whether to be undertaken by students or staff -- or by others working under School auspices) must be checked for their ethical implications. If it is considered that the research requires further scrutiny, an application is submitted to the School's [Research Ethics Committee](#) (click for information on the Committee's composition, role and terms of reference).

The Research Ethics Committee determines the ethical propriety of research projects that are submitted to it. It aims to do this speedily, by email.

The Committee's primary role is to protect the dignity, rights and welfare of research participants. Consideration is also given to the consequences of the proposed research (directly, or those who might benefit or suffer from its outcomes). The Committee also considers the safety of researchers. Specifically, it considers whether:

- the way the project is designed and will be undertaken is in line with the principles outlined in the School's [Code of Good Practice in Research](#);
- the subjects are informed about the aim and intended use of the research; what their participation entails; what risks, if any, are involved;
- if the research subjects request it, the information they supply shall be confidential, and their anonymity respected;
- participants in the study are participating voluntarily,
- participants in the study will be safe;
- researchers have taken proper advice on their own safety.

## Training in research ethics

Sessions on research ethics and ethical interviewing are included in the School's Research Skills Workshops. All research students whose work involves interviewing are encouraged to attend.

## Interviewee consent

An informed consent form for interviewees which may be used as a model for School researchers undertaking interviews is downloadable [from our website](#).

## Note

The School is subject to the Statutes, Ordinances and other regulations of the University of London. Directors of Institutes in the School are responsible to the Dean for the adherence by its staff and students to appropriate ethical standards.

The provisions of the [Data Protection Act 1998](#) and [the Freedom of Information Act](#) 2000 are actively implemented in the University. The University, including the School of Advanced Study, is a public authority for the purposes of the Freedom of Information Act and may be required to disclose information to enquirers in accordance with the provisions of that Act. The University's policy on Public Interest Disclosure (Whistle-blowing) is set out in Ordinance 31, including provision for complaints to be made (inter alia) on academic or professional malpractice, and improper conduct or unethical behaviour.

## **The School's Research Ethics Committee**

- Reporting. The Research Ethics Committee reports annually to the Research Committee.
- Membership:

Chair; and members to include:

Chair, Research Training Sub-Committee (ex officio);

Research Student Representative;

Early-Career Researcher Representative;

Three other members of the Research Committee, drawn upon in rotation with a view to ensuring discipline spread;

A 'lay member'

- Operation

Members may give ethical approval to research applications by email circulation from a rotating selection of their number. They will hold an annual meeting in order to receive a report on collective actions over the year and on research training in ethics at the School; and to discuss any issues arising:

- Research Ethics Committee: Role and terms of reference

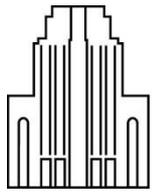
The primary role of the Research Ethics Committee (REC) is to protect the dignity, rights and welfare of research participants. Consideration is also given to the consequences of the proposed research (directly, or those who might benefit or suffer from its outcomes). The REC also considers the safety of researchers. The REC determines the ethical propriety of research projects that are submitted to it. Specifically it considers whether:

- the way the project is designed and will be undertaken is in line with the principles outlined in the School's Code of Good Practice in Research;
- the subjects are informed about the aim and intended use of the research; what their participation entails; what risks, if any, are involved;
- if the research subjects request it, the information they supply shall be confidential, and their anonymity respected;
- participants in the study are participating voluntarily;
- participants in the study will be safe;
- researchers have taken proper advice on their own safety. It is also the role of the REC

to:

- provide up-to-date advice on good practice (including practical advice, such as the design of interview consent forms);
- review its own procedures and determines action it considers necessary;
- report as appropriate to Research Committee, with a summary of reviewed projects and any other matters;
- receive reports on the research training in ethics undertaken by students and staff.

#### 5.4. INFORMED INTERVIEWEE CONSENT FORM



## SCHOOL *of* ADVANCED STUDY

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### UNIVERSITY OF LONDON

#### Informed Interviewee Consent Form

1. I hereby agree to participate in an interview programme, which is part of the research being conducted by Calvin Jackson in connection with work for his PhD thesis. I understand that such participation will involve no payment to me (nor any reimbursement for travel or accommodation costs incurred).
2. The Interview will be audiotaped. In the interview I will be identified by name. I understand that any views expressed by me in my interview will be treated as my personal ones, rather than those of the organisation that employs me/to which I belong, and that if I make any comments/remarks that may be commercially-sensitive, or could be construed as an admission against interest, these may be edited out of the final copy of the transcript at my request.
3. I understand that the interview will take up to one hour and that I can withdraw at any stage. In the event that I withdraw from the interview, any tape made of the interview will either be given to me or destroyed, and no transcript will be made of the interview.
4. I understand that, upon completion of the interview, the tape and information content of the interview may be used as follows [please indicate your preferred option(s) by ticking in the relevant place(s)]:
  - (a) Material may be quoted in the subsequent research papers and PhD thesis of Calvin Jackson, and attributed to me.
  - (b) Material from this interview may be quoted in the subsequent research papers and PhD thesis of Calvin Jackson, but I wish to remain anonymous.
  - (c) My comments are confidential, for the information of Calvin Jackson in the writing of his subsequent research papers and PhD thesis only and may not be quoted.
  - (d) I would like to receive a printed copy of the transcripts of my interview.
5. I may request that portions of the interview are edited out of the final copy of the transcript.
6. I understand that at the conclusion of this particular study the tape and transcript of the interview will be destroyed by Calvin Jackson and that the completed PhD thesis will be kept for public use by the University of London, Senate House Library.
7. If I have questions about the research project or procedures, I know I can contact Mr. Jules Winterton, Director of The Institute of Advanced Legal Studies, Charles Clore House, 17 Russell Square, London WC1B 5DR. Tel: 020 7862 5884; email: [jules.winterton@sas.ac.uk](mailto:jules.winterton@sas.ac.uk)

Interviewer signature: \_\_\_\_\_

Interviewee signature: \_\_\_\_\_

Consent date: \_\_\_/\_\_\_/\_\_\_

Address: \_\_\_\_\_

Phone number: \_\_\_\_\_

Email: \_\_\_\_\_

IICF continued overleaf.....

Continuation...

**Informed Interviewee Consent Form**

Alternatively:

8. Please note that I do not agree to participate in an interview in connection with research being conducted by Calvin Jackson for his PhD thesis (for the avoidance of doubt, I understand that there will be no adverse personal consequences of my decision not to participate).

Name: \_\_\_\_\_ Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**Appendix 6**

**Letter ('RIP2') to confirmed RIP participants, enclosing the Research Interview Information Pack ('RIInfoPack')**

## Appendix 6

### Letter ('RIP2') to confirmed RIP participants, enclosing the Research Interview Information Pack ('RIInfoPack')

Charter Chambers  
33 John Street  
London, WC1N 2AT  
5<sup>th</sup> July 2016

Dear []

PhD Study: 'Promoting Highest Professional Standards in UK Remuneration Committee Advisory Services'

Research Institute: The Institute of Advanced Legal Studies (University of London, School of Advanced Studies)

Researcher: Calvin Jackson.

I am most grateful to you for agreeing to participate in the research interview programme for my PhD Study, which is due to be carried out between September and December 2016. There are now over 50 'confirmed acceptances', with a few invitations still outstanding. As indicated in my original communication with you, the objective regarding interview content/format/timing etc is to make the whole process as worthwhile and convenient for you as possible. With this in mind, the proposed 'plan of action' is as set out below:

- Interview to be conducted in accordance with the relevant Research Ethics protocols of the Institute of Advanced Legal Studies using an Informed Interviewee Consent Form - 'IICF' (please see the enclosed Research Interview Checklist - 'RIC' – for further details on IICF). Many of the interviewees have already returned their signed IICF to me, which is most helpful – but as long as I have back a signed IICF by no later than on the day of interview then this is fine.
- One hour interview duration; audio-recorded (unless you prefer me simply to take notes) and transcribed for your review and agreement in due course.
- Use of a pre-circulated (enclosed herewith) Research Interview Topics Guide ('RITG') – to give you advance notice of suggested topics, so that you have the opportunity to think about these and start the process of formulating your interview responses. Please note that just five topics are listed on the RITG; based on five minutes 'lead-in', five topics covered in about 10 minutes each and five minutes 'wrap-up' to conclude the interview.

Letter to interviewees (continued)

The enclosed Research Interview Checklist ('RIC) covers date, time and location of interviews, plus collection of your employing organisation's 'Principles of Business' (where relevant) and signed IICF. In addition, RIC refers to the Research Interview Consultant Background Questionnaire ('RICBQ'). Not all prospective interviewees will need to complete the RIBQ, but a copy is being supplied to everyone who has agreed to participate in the interview programme (all interviewees will be advised – in a strictly anonymised form – of the results in due course). The purpose of the RIBQ is to gather information on the education level, professional qualifications and length of executive remuneration experience of prospective interviewees who are 'external' consultants to remuneration committees or, alternatively, 'in house' executive remuneration specialists (such as human resources/executive reward practitioners) and, where appropriate, similar details in respect of their relevant 'teams'. The RIBQ has been reduced to what I believe to be the minimum number of questions/topics needed for the research. I am aware of the need for commercial confidences to be guarded - so I am seeking a 'general picture', rather than granular detail.

Interviewees who are based outside the UK (US executive remuneration consultants, for example) should approach the RITG and RIBQ as if all references to the UK are references to their own territory (so that the research can include comparative considerations).

It would be helpful if you could return your completed RIC (covering date, time and location of interviews etc) by no later than 31<sup>st</sup> July 2016 – so that I can start preparing a 'Research Interview Master Schedule' covering all planned interviews. As indicated in the RIC, there is no hurry regarding my having sight of the 'Principles of Business', or the completed RIBQ, until the day of the interview (the same applies to any signed IICFs still outstanding). Accordingly, the only matter of any immediate urgency is for you please to complete the simple RIC and return it to me in the enclosed stamped addressed envelope or, alternatively, to email it to me at [calvin.jackson@postgrad.sas.ac.uk](mailto:calvin.jackson@postgrad.sas.ac.uk).

Please do contact me if you have any queries - and thank you again for your interview participation.

Calvin Jackson.

Enc: Research Interview Checklist (RIC)

Research Interview Topics Guide (RITG)

Research Interview Consultant Background Questionnaire (RIBQ)

## **Appendix 7**

### **RIInfoPack comprising:**

- 7.1 Research Interview Checklist (RIC)**
- 7.2 Research Interview Topics Guide (RITG) and RITG Supplementary Topics (RITGST)**
- 7.3 Research Interview Consultants Background Questionnaire (RICBQ)**

## Appendix 7

RIP2 comprising:

- 7.1 Research Interview Checklist (RIC)
- 7.2 Research Interview Topics Guide (RITG) and RITG Supplementary Topics (RITGST)
- 7.3 Research Interview Consultants Background Questionnaire (RICBQ)

### 7.1 Research Interview Checklist

PhD Study: 'Promoting Highest Professional Standards in UK Remuneration Committee Advisory Services'

Research Institute: The Institute of Advanced Legal Studies (University of London, School of Advanced Study)

Researcher: Calvin Jackson.

### **RESEARCH INTERVIEW CHECKLIST ('RIC')**

#### 1. Date of Interview

Please enter in the relevant boxes below the date (expressed as 'First Choice', 'Second Choice' and 'Third Choice') on which you would like your interview to be held. I shall select your First Choice unless, on a first-come-first served basis, that time has previously been selected by another prospective interviewee – in which case, I shall move successively to your Second Choice then, if necessary, Third Choice. If I find that all of your selected dates are unavailable, I shall come back to you, to agree alternative ones. Please also note that in respect of each working week in September, October and November 2016 and up to 15<sup>th</sup> December 2016, you are welcome to select any working day; however, I would be grateful if where possible Thursday afternoons and all Fridays could be left free for me to do Chambers work. It would assist therefore if you could select Monday (all day), Tuesday (all day), Wednesday (all day) or Thursday (morning only). If it is more convenient in light of your diary commitments to select Thursday afternoon or Friday (all day), then please let me know. I shall then make alternative arrangements for Chambers work in that particular week. Once completed, please return the RIC to me in the enclosed stamped addressed envelope.

Please indicate your interview date preferences:

First Choice Interview Date

Second Choice Interview Date

Third Choice Interview Date

Research Interview Checklist (continued)

2. Timing of Interview

Please tick in the relevant box below the time at which you would like your interview to be held (I propose to be at the relevant location 15-20 minutes prior to the scheduled start, to allow time to set up the audio-recording equipment etc). Again, if due to diary commitments you would prefer the interview to be held later in the day or, indeed, earlier, then please just let me know.

Please tick your interview timing preferences:

	Morning			Afternoon			
	8am	9am	10am	1pm	2pm	3pm	4pm
First Choice Interview Date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Second Choice Interview Date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Third Choice Interview Date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Location of Interview

Please enter in the relevant box below where you would like your research interview to take place. I anticipate you will select your office address (or such other address you may nominate), but if you would prefer your interview to be conducted away from your office premises (or other nominated address) then please tick the relevant box below and I shall come back to you with a suggested alternative location (such as, Chambers or the Institute of Advanced Legal Studies - both in London, WC1). If it would be more convenient for your interview to be conducted by Skype or Telephone Conference Call, rather than at a physical location (for example, your business address may be outside the UK or outside the Home Counties) then please tick the relevant boxes below:



## 7.2 Research Interview Topics Guide

PhD Study: 'Promoting Highest Professional Standards in UK Remuneration Committee Advisory Services'

Research Institute: The Institute of Advanced Legal Studies (University of London, School of Advanced Studies)

Researcher: Calvin Jackson.

### **RESEARCH INTERVIEW TOPICS GUIDE ('RITG')**

**Topic  
Number**

**Topic Description**

1. 

How do you consider the provision of UK remuneration committee advisory services is currently working (including in respect of the pay determination process and pay outcomes)? Do you feel that the advice provided by 'external' consultants to remuneration committees is genuinely independent and objective? What is your perspective on the working relationships between remuneration committees and their appointed 'external' consultants?
2. 

What is your view on the provision of UK remuneration committee advisory services via Big 4 Chartered Accountants, Actuarial and Benefits Consultancies and independent 'Boutiques', respectively? Do you consider that any potential 'conflicts- of-interest' are currently satisfactorily addressed in the situation where a professional services firm (whether Big 4 or ABC) provides other advisory services to a client company as well as being appointed to advise the remuneration committee concerned?
3. 

What is your perspective on the current UK approach of a voluntary Code of Conduct adhered to by the members of the Remuneration Consultants Group? How do you feel this is working in practice?
4. 

What is your assessment of the ethical and professional standards of 'external' consultants to remuneration committees (in an individual consultant context, as well as that of the employing firm)? Do you consider that 'external' consultants have appropriate technical experience, plus the operational processes and ethical training to support the provision of their advice to remuneration committees? Do you have a view on whether there might be a specialised 'executive remuneration advisory' accreditation (given that the provision of such advice is not currently a licence to practise profession, with ongoing 're-validation/CPD' requirements and the availability of disciplinary sanctions)?

## Research Interview Topics Guide (continued)

5.

What is your perspective on 'in-house' executive remuneration specialists' 'working relations/interaction' with the remuneration committee's appointed 'external' remuneration consultants, and with the remuneration committee itself? What is your assessment of any protocols adopted for initiating and managing the provision of remuneration committee advice (and review of successive drafts of advisory reports etc)? Do you consider that any potential 'conflicts-of-interest' inherent in 'in-house' executive remuneration specialists being involved in top management remuneration are being satisfactorily addressed?

## Research Interview Topics Guide Supplementary Topics ('RITGST')

### RITG1 : Supplemented by RITGSTs1-4

- \* RITGST1 : What is your view on shareholder vote on the appointment/retention of ExecRemConsultants ['SExecRemConsultants']?
- \* RITGSTs2-4 : What are your views on Theresa May's proposed corporate governance reforms, respectively : Shareholder annual binding vote on remuneration ['SABV'], Pay ratio disclosure ['PRD'], Workers on BoD [WOB]?

### RITG2 : Supplemented by RITGST5

- \* RITGST5 : What is your view on the disclosure to shareholders of fees charged for 'Other Services' [DOtherServicesFees]?

### 7.3 Research Interview Consultants Background Questionnaire

PhD Study: 'Promoting Highest Professional Standards in UK Remuneration Committee Advisory Services'

Research Institute: The Institute of Advanced Legal Studies (University of London, School of Advanced Study)

Researcher: Calvin Jackson.

## **RESEARCH INTERVIEW CONSULTANT BACKGROUND QUESTIONNAIRE ('RICBQ')**

The purpose of the RICBQ is to collect background and contextual information on the years of executive remuneration experience, level of academic attainment and professional qualifications of the 'external' executive remuneration consultants participating in the research interview programme (and, similarly, the 'in-house' executive remuneration specialists, such as human resources/executive reward practitioners). The information is being collected to provide an overall picture of individual 'external' consultants, together with 'in-house' human resources/executive reward practitioners, and their respective 'teams'.

The applicable categories for, respectively, 'years of executive remuneration experience' (Q4) and 'level of academic attainment' (Q2) have been adopted, respectively, from the Remuneration Consultants Group January 2016 Review and the Government's Comparing Different Qualifications (<http://www.gov.uk/what-different-qualification-levels-mean>).

Please note that non-UK interviewees should complete the questionnaire using their best assessment of the relevant academic levels/professional qualifications applicable in their respective territories. If you believe that your response to a question needs to be qualified/described in more detail in order for it to 'make sense', then please add such information as you consider appropriate (alternatively, please contact Calvin Jackson).

1. Please specify whether you are an 'external' consultant to remuneration committees or an 'in-house' human resources/executive reward practitioner:

External

In-house

Research Interview Consultant Background Questionnaire: 'RICBQ' (continued)

2. Your level of academic attainment. Please tick all boxes that apply to your particular circumstances – the relevant Levels set out in the Government website are:

- Level 3: AS and A Levels/International Baccalaureate
- Level 4: Certificate of Higher Education/HNC
- Level 5: Diploma of Higher Education/HND
- Level 6: Bachelors Degree/Graduate Certificate/Graduate Diploma
- Level 7: Masters Degree/Postgraduate Certificate/Postgraduate Diploma
- Level 8: Doctorate

Examples are: MBA is Level 7 and BA is Level 6.

Please note that non-UK interviewees should complete Q2 using their best assessment of the relevant Levels applicable in their respective territories.

3. Your 'professional qualification(s)'. Please specify below any professional qualifications you have obtained – examples might be ACCA, Barrister, CIMA, CTA, FCIPD, FCA, FIA, ICSA Solicitor (please specify, for example Chartered Accountant (FCA), Solicitor or FCIPD):

**Professional qualification(s) [Q3(a)]**

Research Interview Consultant Background Questionnaire: 'RICBQ' (continued)

Please specify below the number of years of qualifying experience required for you to obtain a practising certificate (or comparable status):

**Years of qualifying experience [Q3 (b)]**

4. Your experience.

How many completed years of 'external 'executive remuneration consultant/'in-house' human resources/executive reward practitioner experience do you have? Please tick the relevant box below:

**Years of executive remuneration experience**

0-3 years

3-6 years

6-9 years

9+ years

5. Please provide an overall picture of the level of academic attainment of the 'external' executive remuneration consultants/'in-house' human resources/executive reward practitioners in your 'team', in relation to each of the 'years of experience' categories set out in Q4 above. For example, at the '0-3 years' level, the overall picture might be Level 6 (see Q2 above).

**Years of executive remuneration experience [Q4]**

**Level of academic attainment [Q2]**

	<u>Level 3</u>	<u>Level 4</u>	<u>Level 5</u>	<u>Level 6</u>	<u>Level 7</u>	<u>Level 8</u>
0-3 Years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3-6 Years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6-9 Years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9+ Years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Research Interview Consultant Background Questionnaire: 'RICBQ' (continued)

6. Please provide an overall picture of any professional qualifications of the 'external' executive remuneration consultants/'in-house' human resources/executive remuneration practitioners in your organisation's 'team', by experience level set out in Question 4 above. An example might be to specify broadly one-third are chartered accountants, one-third are lawyers and one-third FCIPD:

**Years of executive remuneration experience** (Q2)

**Professional qualification(s)** [Q3(a)]

0-3 Years

--

3-6 Years

--

6-9 Years

--

9+ Years

--

## **Appendix 8**

**Post-Interview Letter (RIP3) to RIP participants, enclosing draft transcripts of interview for review/  
sign-off by interviewees**

## Appendix 8

### Post-Interview Letter (RIP3) to RIP participants, enclosing draft transcripts of interview for review/ sign-off by interviewees

#### Calvin Jackson: PhD Study- Circulation of draft transcript of interview

Dear ABC,

I hope all goes well, and my best wishes to you for 2017.

The research interview programme has now been completed (with 53 interviews conducted). Thank you so much for participating in the research exercise. Your input was extremely helpful - and I am most grateful.

Attached to this e-mail is a draft transcript of your research interview, which was prepared by a UK-based professional transcription company (EQ Transcription Services Limited) from the relevant digital recordings. I have reviewed all the draft interview transcripts in turn, and I am satisfied that these form a suitable basis for coding and analysing the findings/results of the various interviews.

I would mention the following:

- Almost all of the draft transcripts contain a number of missing words/mishearings by the transcriber of the relevant digital recording - it seems to me though that it would not be a useful/worthwhile exercise to start 'correcting'/'amending' the draft transcripts on a line-by-line basis. I suggest I instead employ careful discretion in the way I use the transcripts (please see below);
- I do not propose to identify any interviewees by name or employing firms/organisations, in terms of quotations/reference, nor to include a 'schedule of interviewees/employing firms or organisations' in the thesis (nor, indeed, to identify/ mention any individuals or organisations interviewees may have identified in interview). So please do not be concerned if your draft transcript names particular individuals/companies or, indeed, any other material that might potentially identify anyone etc. - I shall ensure all such things are kept confidential;

- I shall review the respective completed Informed Interviewee Consent Forms, and will take care to comply in particular with 'no attribution' and 'data destruction' directions/provisions contained therein. The confidentiality of interviewees/data has been a most important consideration for me right from the start of the research - I have taken all reasonable steps to ensure this and will continue to do so.

With this background/context in mind, could you please read through your draft transcript of interview and let me know if there are any words/sentences you would still like me to delete? It would be helpful if you could do this within six weeks of the date of this e-mail (or, alternatively, please advise me within the six-week period that you will subsequently be submitting comments etc.). Otherwise, I shall assume you are content with your draft transcript of interview (on the basis outlined in this e-mail, together with your completed IICF and other London University School of Advanced Study, Institute of Advanced Legal Studies Research Ethics documentation sent to you at the outset).

I propose to circulate to all research interviewees in due course a strictly 'no names' Summary of Research Interview Findings (SRIF) - hopefully, this will be in the first half of 2017. I would like to go through my 'Mini Viva' first, so that I can incorporate into the SRIF any comments/ suggestions from the examiners.

If you have any queries regarding this e-mail, or any other aspects of the PhD Study, please do contact me on the above e-mail address or by telephone in Chambers (0207 618 4400).

My best wishes, and thanks as always,

Calvin.

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## **UK/EU/US/AU Legislation**

### **UK**

The Directors' Remuneration Report Regulations 2002, SI 2002/1986

Companies Act 2006

The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, SI 2008/410

The Teachers' (England) Disciplinary Regulations 2012, SI 2012/560

Committee stage debate of Financial Services (Banking Reform) Bill 2013

Enterprise and Regulatory Reform Bill 2012

Enterprise and Regulatory Reform Act 2013

Draft statutory instrument: 2013 no. XXXX: Companies: The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013

The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, SI 2013/1981

The Companies (Miscellaneous Reporting) Regulations 2018, SI 2018/860

### **EU**

Council Directive 78/660/EEC of 25 July 1978 on the annual accounts and consolidated accounts of certain types of companies, as amended by Directive 2006/46/EC of 14 June 2006

Audit Directive and Regulation Directive 2014/56/EU of 16 April 2014 and amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts

Regulation (EU) 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC Text with EEA relevance

### **US**

Sarbanes-Oxley Act 2002

Dodd-Frank Wall Street Reform and Consumer Protection Act 2010

### **AU**

Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011. Available at <<https://www.legislation.gov.au/Details/c2011A00042>> accessed 30 January 2019

## Cases

Hedley Byrne & Co Ltd v Heller & Partners Ltd [1963] 2 ER 575

Caparo Industries plc v Dickman [1990] 1 ER 568

Barings plc v Coopers & Lybrand (No 1) [2002] 2 BCLC 364

Stone & Rolls Ltd v Moore Stephens [2009] 2 BCLC 563

Newcastle International Airports [2012] 2 All ER 728

Jetivia SA v Bilta (UK) Ltd [2015] UKSC 23

## Official Publications, Reports, Reviews, Codes, Guidelines and Accrediting/Professional Bodies

ABI, 'Comply or Explain Investor expectations and current practices' (2012)

— 'Improving Corporate Governance and Shareholder Engagement' (2013)

— 'Principles of Remuneration' (2013)

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Becht M, 'Comply or Just Explain?' in 'Comply or Explain 20<sup>th</sup> Anniversary of the UK Corporate Governance Code' (*Financial Reporting Council* 2012). Available at <<https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Comply-or-Explain-20th-Anniversary-of-the-UK-Corpo.aspx>> accessed 10 August 2017

BEIS, *Corporate governance and remuneration in the financial services sector: Written Evidence* (2012-13, HC 72)

BEIS Select Committee Governance, *Corporate governance: House of Commons Third Report of Session 2016-17* (2016-17, HC 702)

BEIS, *Corporate governance: Government Response to the Committee's Third Report of Session 2016-2017* (2016-17, HC 338)

BEIS, *Corporate Governance Reform Green Paper* (November 2016).

— *Corporate Governance Reform: The government response to the green paper consultation* (August 2017)

BIS, *Executive Remuneration: Discussion paper* (September 2011)

— *Executive Remuneration Discussion paper: summary of responses* (January 2012)

— *Directors' Pay: Consultation on revised remuneration reporting regulations* (June 2012)

— *The Kay Review of UK Equity Markets and Long-Term Decision Making: Final Report* (July 2012)

— *Ensuring Equity Markets Support Long-Term Growth: The Government Response to the Kay Review* (November 2012)

BIS & FRC, *Proposals to Reform the Financial Reporting Council: A joint Government and FRC response* (March 2012). Available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/190187/12-700-proposals-reform-financial-reporting-council-response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/190187/12-700-proposals-reform-financial-reporting-council-response.pdf)> accessed 29 January 2019

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