

THE PROFESSIONAL STANDARDS OF EXECUTIVE REMUNERATION CONSULTANTS

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Context (1)

- Executive pay – really important topic in society
- Electorate needs to maintain faith in capitalist system
 - Good jobs
 - Taxes to pay for public services
- Post-GFC: Concerns over ‘high pay’/’rewards for failure’
- Concept of ‘responsible capitalism’

Context (2)

- Writing book on professional standards of executive remuneration consultants
- Publisher: Routledge (late 2022)
- Formerly 25 year 'veteran' executive remuneration consultant
- Advised remuneration committees around the world (particularly in financial services)

Context (3)

- Decade ago, invited to return to practising at Bar
- Disciplinary Panel Chair – major UK professional body
- Combined with IALS LLM, then PhD
- Perspective: Ringside seat on development of UK executive remuneration consultancy, plus undertaken extensive empirical research programme

Executive Remuneration Consultants (1)

- Love them or hate them – key role in RemCo pay determination process
- Remuneration committees, executive remuneration consultants and in-house executive reward specialists
- Provision of ‘independent advice’ crucially dependent on professional standards of executive remuneration consultants
- ‘Professional standards’: Technical expertise/experience, plus ethical/training considerations

Executive Remuneration Consultants (2)

- Self-regulation: Remuneration Consultants Group (2009)
- RCG: 11 member firms
- Big Four, Actuarial & Benefit Consultants and Boutiques
- Niche ‘business advisory’ service, as opposed to fiduciary obligations
- No specific specialised accreditation nor qualification/no licence to practise
- Executive remuneration consultants at most senior level tend to be actuaries, chartered accountants, chartered tax advisors, lawyers or MBAs.

Executive Remuneration Consultants (3)

- Only about 250 executive remuneration consultants in UK
- Perhaps 50 'really senior' executive remuneration consultants
- Too small a 'profession' for examinations/disciplinary sanctions on individual consultants?
- RCG's Voluntary Code of Conduct – not a 'trade body'
- Monitor and review VCC – never received a complaint about member firm (nor individual consultants)

Empirical Doctoral Research Programme (1)

- 2014: identification of 'Big Six Issues' – eg., 'short-termism', 'incentive plan design' and 'corporate ethics/behaviour'
- One of BSI – 'professional standards' of executive remuneration consultants
- Certain of BSI may well merit reform, but hypothesis for doctoral research was that current UK regulation and practice applicable to executive remuneration consultants broadly appropriate
- 2016 (updated:2021): 53 doctoral research interviews of protagonists on UK pay scene

Empirical Doctoral Research Programme (2)

- Quantitative -v- qualitative research
- Qualitative, in footsteps of Bender, Adamson, Bender & Franco-Santos and de Gannes
- Focus on professional standards: Executive remuneration consultants and in-house executive reward specialists
- Qualitative semi-structured 'elite' interviews
 - RemCo Chairs/members
 - Executive remuneration consultants/in-house executive reward specialists
 - Institutional shareholder bodies/proxy advisors
 - City lawyers/Regulators/BEIS

Empirical Doctoral Research Programme (3)

- 59 invitations/56 acceptances/53 completed interviews (2016)
- 13 updating interviews (2021)
- 18 research aspects
- Result: Strong evidence to support the research hypothesis

Research Aspects (1)

- RemCo/executive remuneration consultants working relationships?
- Executive remuneration consultants: Genuinely independent and objective?
- Business of executive remuneration consultancy in UK and US: Key players, regulations and practices
- Self-regulation - how is RCG working?
- In-house executive reward specialists: Working relationships? Conflicts of interest satisfactorily addressed?
- 'Professional standards'

Research Aspects (2)

- Professional standards:
 - Technical expertise/experience/training/ethics
 - Consideration of specialised accreditation/qualification and/or licence to practise regime (disciplinary sanctions)
- Also covered:
 - Shareholders' binding vote on appointment of executive remuneration advisory firm
 - Shareholders' annual binding vote on DRR
 - Pay ratio disclosure
 - Workers on Board
 - Disclosure of fees charged for 'Other Services'

Research Programme Results (1)

- Ascribed interview responses: 'Positive', 'Mid-position' or 'Negative'
- Strong consensus overall, but dispersion in particular respects
 - UK remuneration committee advisory scene (three-way 'split')
 - Genuinely independent and objective? (three-way 'split')
 - Executive remuneration consultants: working relationships (generally 'Positive', some 'Negative')
 - Executive remuneration consultants: conflicts of interest (generally 'Positive', some 'Negative')

Contd.....

Research Programme Results (2)

Professional standards (Contd).....

- Ethics/professional standards ('split' between 'Positive' and 'Mid-position')
- Technical expertise/experience ('split' between 'Positive' and 'Mid-position')
- Specialised accreditation/qualification (predominantly 'Negative, but some 'Positive' or 'Mid-position')
- Licence to practise (predominantly 'Negative, but some 'Positive' or 'Mid-position')

Research Programme Results (3)

Professional standards (Contd).....

- UK: Self-regulatory regime and RCG (predominantly 'Mid-position', but some 'Positive' or 'Negative')
- In-house executive reward specialists: Conflicts of interest (predominantly 'Mid-position', but some 'Positive' or 'Negative')

Research Programme Results (4)

- Very limited appetite for UK regulatory or practice reform
- Scarcely surprising: Executive remuneration consultancy/consultants:
 - At 'really senior' level, usually professionally qualified
 - Tiny 'profession': not growing
 - Lack of resources/infrastructure for specialised professional qualification/examinations/disciplinary processes
 - Arguably 'competitive oligopoly' of two Big Four and two Actuarial & Benefit Consultancies, but Boutiques gaining ground
- Why have US and UK gone down such different routes on regulations and executive remuneration consultancy firms?

What's Next?

- Further research: Remaining BSI
 - In-house executive reward specialists
 - Emerging practices in financial services (key financials centres worldwide)
- On independent external reviewer's advice, seeking US co-author for book on 'Future of Executive Pay'
- Invited to collaborate on screenplay for feature film on an 'Executive Pay Dilemma'/'Trouble in a City Boardroom'
- Thank you for participating in this session – happy to take any questions