The London School of Economics and Political Science

The Emergence and Work Processes of Executive Remuneration Consultants

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Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

I warrant that this authorisation does not, to the best of my belief, infringe the rights of any third party.

I declare that my thesis consists of 71,280 words.

Abstract

This thesis studies the emergence of executive remuneration consulting as a distinct occupation from the 1990s, and the co-emergence of remuneration consultants and remuneration committees from the early 2000s. These actors, their work processes, norms and interlinkages are studied within the context of key social, economic and political factors, which shape the fields of remuneration consulting work and remuneration governance.

In light of recent conflicting governance recommendations, it is important to evaluate the system of governance in relation to the historical reference points which have shaped executive pay practices. In so doing, this thesis analyses the dynamic processes in which numerous actors (remuneration committees, executive directors, Reward/HR directors, remuneration consultants and institutional investors), documents (corporate governance codes, governance guidelines and regulations) and tools (market trends analysis and pay benchmarking) are collectively engaged.

Executive remuneration has overwhelmingly been researched from the agency perspective, delineated into two theoretical points of departure: optimal contracting (Jensen and Meckling, 1976) and managerial capture (Bebchuk and Fried, 2003; 2004). Despite managerial capture theorists seeking to address perceived shortcomings in optimal contracting, both result in an *undersocialised* (Granovetter, 1985; cf. Main, 2006) view of executive pay practices.

Drawing on a genealogical approach (Foucault, 1971), Chapter 3 studies the emergence of executive remuneration consulting, while Chapter 4 examines the co-emergence of remuneration consultants and remuneration committees. Drawing on a field-based study at a leading remuneration consultancy, Chapter 5 presents the day-to-day work processes of executive remuneration consultants, and the ways in which consultants have produced their relevance in executive pay design and governance. Chapter 6 problematizes the market for executive talent and presents a conceptualisation of pay benchmarking practice. Chapter 7 argues that a dominant logic of risk has gone undocumented; that it is risk and risk management that 'percolates and pervades' (Power, 2004) executive remuneration governance.

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What a journey! Not a single step of which I travelled alone.

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This journey was made worthwhile by the existence of one extremely accommodating little boy. Marcus, this is for you.

The Emergence and Work Processes of Executive Remuneration Consultants

Table of Contents

List of Figures and Tables

Figures

Tables

Abbreviations

ABI	Association of British Insurers
BEIS	Department for Business, Energy and Industrial Strategy
BIS	Department for Business, Innovation and Skills
CBI	Confederation of British Industry
DRRR	Directors Remuneration Report Regulations (2002)
DTI	Department of Trade and Industry
ERR	Enterprise and Regulatory Reform Act (2013)
FRC	Financial Reporting Council
IA	Investment Association
IoD	Institute of Directors
ISC	Institutional Shareholders' Committee
ISS	Institutional Shareholder Services
IVIS	Institutional Voting Information Service
NAPF	National Association of Pension Funds
PIRC	Pension and Investments Research Consultants
PLSA	Pensions and Lifetime Savings Association
RREV	Research Recommendations Electronic Voting
SEC	Securities and Exchange Commission
UK	United Kingdom
US	United States of America

Chapter 1
Bringing the 'Social' in

1.0 Introduction

Repeatedly over the past 25 years, the pay packages for public company executives have been subject to public and political ire. Often seen to be egregious and unjustified, executive pay packages have triggered moral panic in British society. In response to this, and often in the wake of corporate failings, politicians have sought to quell public anxiety by introducing governance codes and statutory regulation. From the 1990s, institutional investors, investor representative bodies, and proxy advisors have entered the fray, wielding substantial clout in executive pay design and governance. From within the 'ivory tower' of corporate Britain, remuneration committees (RemCos) have emerged as central in setting and monitoring executive pay, and critically placed to advise the RemCo are their appointed executive remuneration consultants.

Although executive pay remains one of the most emotive and recurrent topics in corporate governance, few researchers have investigated the dynamics processes involved in pay design and governance, or the social interactions amongst the key actors engaged in these processes. Furthermore, while there is consensus that executive remuneration consultants are pay experts (Murphy and Sandino, 2010; Conyon et al., 2011; Bender, 2012; Gallani, 2015), and remuneration committees are central in pay governance, little is known of how these actors attained their relevance in executive pay design, or how they reproduced their relevance when their legitimacy was challenged.[1]

This study addresses the undersocialised (Granovetter, 1985; cf. Main, 2006) view of executive pay practices, which arguably pervades much of the extant literature. In the chapters that follow, the study investigates (i) the emergence of remuneration consulting work at the interface of key governance episodes, (ii) the day-to-day activities of executive remuneration consultants, and (iii) the interrelationships between consultants and other key actors. This study aligns strongly with the research agenda that have sought to study accounting practice

[1] Remuneration consultants have been implicated in the upward ratchet of pay, especially in the wake of the Global Financial Crisis. This will be elaborated in Ch.4 of the thesis.

within its social, organisational and institutional contexts. As such, it is deeply interested in the emergence of executive pay practices in 'particular, localised historical settings, (and) the 'how' of such processes' (Miller, 1994, p. 20). Accounting researchers, attentive to practice and its meaning are keenly aware of the importance of 'analysing the complex interplay between the multiple arenas' (Miller, 1994, p. 27) within which practices emerge. An interest in practice, especially is organisational settings, has also garnered a significant research following in recent decades.[2] Influenced by these traditions, this study is both attentive to the historical specificity of contemporary practices as well as the study of practice in its natural environment; 'as embodied, materially mediated arrays of human activity centrally organised around shared practical understanding' (Schatzki, 2000, p. 2). Thus, the research questions at the core of this study are as follows:

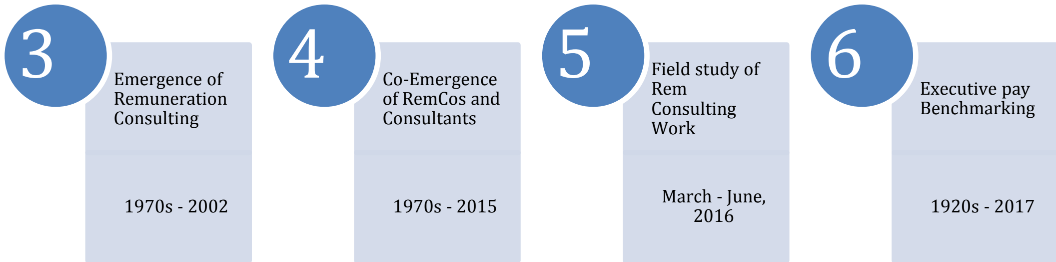
> **(I) How did executive remuneration consultants become central in the design and governance of executive pay in UK public companies?**
>
> **(II) How do remuneration consultants design and govern executive pay?**

The first two substantive chapters – Chapter 3 and Chapter 4 – address research question (I). Chapter 3 explores the emergence of executive remuneration consulting as a distinct occupation from the 1990s, while Chapter 4 studies the emergence of the independent non-executive director in Britain and later the rise of the RemCo in pay governance, prior to analysing the interplay between RemCos and executive remuneration consultants. Studying these histories enables the claim that the consultant and committee co-emerge from the early 2000s; their design and governance work mutually dependent and inextricably linked. In these two chapters, the historical emergence of these actors, their practices, norms and interlinkages are importantly analysed within the context of key social, economic and political episodes.

[2] See Schatzki et al. (2001) for a summary of the 'practical turn' or 'practice approach' in Sociology.

The latter two substantive chapters – Chapter 5 and Chapter 6 – investigate the contemporary pay practices of executive remuneration consultants, and the role of these practices in the production of pay expertise and the pay benchmark, respectively. Chapter 5 - based on a participant observation and 20 interviews with consultants at a leading executive remuneration consultancy - describes consultants work activities, and in so doing, problematizes the divide between mundane and expert tasks, as well as routine and knowledge work. Chapter 6 studies the emergence of executive pay benchmarking practice; problematizing both the market for executive pay and the upward ratchet of executive pay.

Figure 1.1: Overview of the substantive chapters[3] (and their longitudinal ranges)



The longitudinal range as well as the level of analysis (individual, group, organisational, institutional) varies across the four chapters. The methodological approach and research methods also differ across the chapters. Chapters 3 and 4 take a genealogical approach and draw on archival and interview-based methods. In Chapter 5, ethnographic methodology influences the way in which the participant observation was designed and carried out. Chapter 6 draws on a social constructivist perspective, weaving together archival, interview and field-based data in order to construct an account of pay benchmarking practice. The various methodological approaches are detailed in Section 1.2, while the research methods are described in Chapter 2.

In light of the differences in methodology, research methods and the longitudinal range of the chapters, it was somewhat surprising to the researcher that there emerged a common thread, which linked all four substantive chapters. This common thread was the recurring evidence of risk, risk concerns, and risk

[3] The numbers in the diagram correspond with the chapter numbering in this thesis.

management, in the design and governance of executive pay. It was through the process of interpreting the data, writing the chapter narratives, and then connecting these narratives with broader academic discourses, that the logic of risk emerged as centrally important in the analysis of executive pay practices. Chapter 7 was written to explore the role and pervasiveness of risk in remuneration governance as well as to position these findings within the broader discourses of risk in society and risk management in corporate governance.

In summary, this thesis is neither monograph, nor paper-based in style.[4] Rather, it is something of a hybridized format. There is an overarching research objective - to investigate the dynamic processes of executive pay design and governance – as well as a central actor of concern - the executive remuneration consultant. At first glance, the mosaic of methodologies and methods may appear more hodgepodge than systematic, but then systematising the organic and serendipitous nature of social research would prove challenging to any disciple of qualitative research.

The following section, which reviews the extant literature, also provides some insights into why fresh methodological approaches are needed in this area of research. It is worth noting that the remuneration (or compensation[5]) literature is vast, and while an initial overview of the literature is provided (cf. Murphy, 1999; Devers et al., 2007), the focus narrows to more specifically review the social and governance influences on executive pay design and determination. The limitation of this narrow focus is addressed in Chapter 8.

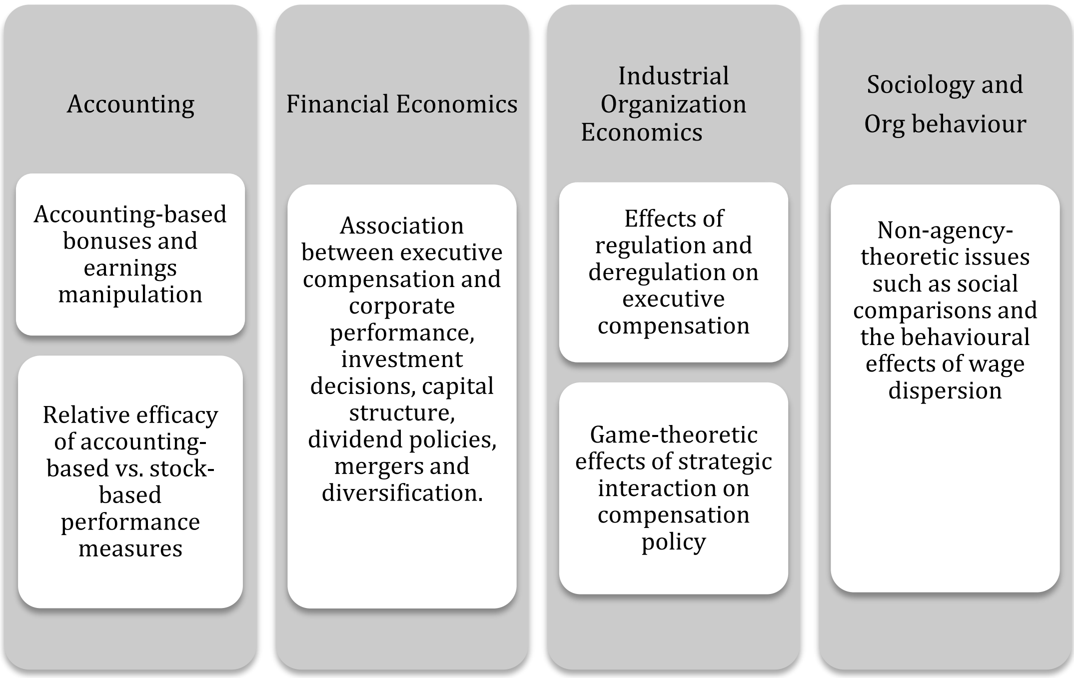
1.1 Literature Review

In his review of the literature, Kevin Murphy described the modern history of executive compensation research as beginning in the early 1980s[6], paralleling 'the emergence and general acceptance of agency theory' (Murphy, 1999). In his comprehensive review of the extant literature for the *Handbook of Labour Economics* in 1999, Murphy describes the research areas in which compensation

[4] In paper-based theses, each paper might stand independently of the other, with little or no reference made to the other paper(s).
[5] Compensation is the term typically used in US-based academic literature.
[6] Hallock and Murphy (1999), drawing on the Social Science Citation Index database, find CEO pay research rising from 1-2 papers per year prior to 1985 to 60 papers in 1995.

studies had taken flight, including accounting, economics, finance, industrial relations, law, organisational behaviour and strategy. Interestingly, Murphy (1999) noted that there was scant evidence of compensation research by labour economists. Instead, research had flourished in the following four areas:

Figure 1.2 Focal areas of executive compensation research (1999)



Source: Adapted from Murphy (1999, p. 2488) and tabularised by the researcher

Overwhelmingly across the areas of research, the dominant theoretical lenses were optimal contracting theory and managerial capture theory. Jensen and Meckling (1976)'s seminal work on the agency problem[7] was instrumental in popularising the optimal contracting research agenda. Executive compensation was seen to be the ideal 'real-world' example of how principals could align their agents' interests via contracting. Optimal contracting theorists assumed that the principal would ex ante formulate the optimal pay-out for eventual superior performance. Therefore, the incentive contract could correct for the principals' inability to monitor the agents' actions.

[7] The agency problem can be described as the divergent interests of shareholders (principals) and managers (agents). Shareholders, as residual claimants, seek the maximum net present value for the firm, while managers seek maximum utility.

Those scholars within the “efficient contracting” camp (Murphy, 2013, p.214) largely focused on identifying the determinants of pay and evaluating the linkages between pay and performance. The use of multiple regression analysis enabled researchers to make general claims about the characteristics that determined pay. Although researchers agreed that executive pay was *determined*[8] by firm size[9] and firm complexity, ‘the failure to document a consistent and robust relationship between executive pay and firm performance has frustrated scholars and practitioners’ (Devers et al., 2007, p. 1016). In search of explanations for the inconsistent results (Pepper, 2014), scholars argued for the research focus to be broadened, in part suggesting that undocumented and untested political and social explanations might account for divergent findings (Jensen and Murphy, 1990; Gomez-Meija and Wiseman, 1997; Murphy, 1999).

Whether or not in response to these calls, there emerged in the early 2000s, a second research agenda. This was largely influenced by the work of Bebchuk et al. (2002) and Bebchuk and Fried (2003, 2004) on managerial capture theory. The “managerial power” camp (Murphy, 2013, p.214) argued that the level and composition of pay was determined by captive board members (and later captive remuneration consultants) catering to rent-seeking executives, as opposed to contracts being set by competitive market forces. The managerial capture camp grew to include event studies, which sought to determine the impact of changes in governance and regulation on either the stock market or executive pay (see Ferri and Maber, 2013 as an example), or the characteristics of boards, RemCos and consultants on the quantum and structure of executive pay.

Thus, within a decade of Gomez-Meija and Wiseman (1997) and Murphy (1999), the executive compensation literature had exploded. An updated literature review by Devers et al. (2007) analysed 99 executive compensation studies[10] published in

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[8] In multiple regression analyses, where executive pay is the dependent variable, firm size and firm complexity have repeatedly been tested and confirmed as the strongest determinants of pay, that is, the strongest independent variables.

[9] For example, Tosi, Werner, Katz, & Gomez-Mejia (2000) found firm size accounted for over 40% of the variance in total CEO pay & firm performance contributed less than 5%.

[10] Of the 99 articles reviewed in Devers et al. (2007), 44% were from management journals, 34% were from finance journals, 12% were from accounting journals, and the

the most widely cited journals from 1997 to 2007. Devers et al. (2007) categorised the main areas of compensation research as follows:

Table 1.1: Devers et al. (2007) Review of Executive Compensation Literature

I. Relationships between pay and performance

- A. The influence of performance on pay
  1. Principal-agent model influences
  2. Performance surprises
  3. Governance influences
- B. The influence of pay on performance
  1. Pay plan adoption
  2. Elements of pay
  3. Top management team pay and pay dispersion

II. Relationships among pay and behaviours

- A. The influence of pay on executive actions
  1. Goal alignment
  2. Strategic choices
  3. Individual choices
  4. Goal misalignment
  5. Risk preference alignment
  6. Contextual influences
  7. Stock options
- B. The influence of executive actions and other factors on pay
  1. Contextual influences
  2. Governance influences
  3. Human capital and social influences

Source: Devers et al. (2007, p. 1017-1018)

In the categorisation of the dominant research strands in Table 1.1, three subsections – see highlighted – particularly overlap with this study's interest in the social factors which shape executive pay practices. In the category of research on governance influences on pay for performance, Devers et al. (2007) criticised these studies for overlooking two key factors, (i) labour market considerations[11] and (ii) regulation (such as tax and accounting treatments on pay). With respect to regulation, Murphy (2013) also noted that researchers had largely ignored

remaining 10% were from economics, psychology, or other journals (Devers et al., 2007, p. 1017)

[11] Labour market considerations, such as executive reputation, human capital, discretion, industry mobility, and industry pay.

government intervention[12] in executive pay, yet such interventions had been 'a major driver of time trends in CEO pay' (p. 215). Arguably, these 'variables' were likely missed or omitted from empirical quantitative studies, as they are difficult to measure.

In the category of research on governance influences on the design and determination of pay (i.e. behaviour-focused research), findings once again proved divergent. Daily et al. (1998) found no support for the hypothesis that compensation committee composition influenced CEO pay levels. On the other hand, Core, Holthausen, and Larcker (1999) found that CEOs earned more under weak governance structures. Core, Holthausen, and Larcker (1999) more specifically found that CEO compensation was higher when the CEO was also the board chair, the board was larger, there was a greater percentage of the board composed of outside directors (and the outside directors are appointed by the CEO), when outside directors were older and served on more than three other boards (p. 371).

Research on the human capital and social influences on pay determination drew on a plethora of theories, including managerialist theory (or managerial capture theory[13]), social comparison theory[14] (Festinger, 1954), tournament theory[15] (Lazear and Rosen, 1981), equity theory[16] (Adams, 1965) and human capital theory[17]. Key research contributions using these theories are reviewed below.

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[12] Murphy (2013) is likely making a distinction here between government intervention and the introduction of regulation.

[13] Due to the parameters used in Devers et al. (2007), Bebchuk et al. (2002) and Bebchuk and Fried (2003) was missed in the review.

[14] In 1954, Leon Festinger laid out the foundation of social comparison theory in the format of several hypotheses, corollaries and deviations that described the situations in which people evaluate and compare their opinions and abilities with others. In the context of executive remuneration research, social comparison theory has been used to explore the ways in RemCo members engage in social comparison for the determination of executive pay packages.

[15] O'Reilly et al. (1988), in describing tournament theory, state that 'executive salary structures can be likened to a series of tournaments or lotteries among contestants (Lazear and Rosen, 1981). Winners of the tournament at one level are allowed to enter the next tournament. In this scheme, the compensation of the CEO represents the prize in the lottery' (p.257)

[16] In Ezzamel and Watson's (2002) summary of Adam's equity theory, the authors state 'an individual gives something (input) in return for something (outcome). If input is not recognized as relevant or 'appropriately' valued by the other party in the exchange, then inequity is perceived to occur' (p.212). In the context of their research, it's not the case

O'Reilly, Main and Crystal (1988) tested a tournament model and a social comparison model to explain CEO pay. While the tournament test returned insignificant results, the social comparison test found that the 'presence of highly remunerated outside board members is related to high CEO salaries in a statistically significant manner. And these results hold even when there are controls for the fundamental economic characteristics of the corporation such as size, profitability and industry' (p. 269). Also drawing on social comparison theory, Ezzamel and Watson (1998) suggest that compensation committees pay executives at least at the going rate and deviations from that rate influence subsequent pay. They also found that there was a significant adjustment toward the going rate for underpaid executives, thus reducing external market pay anomalies. Later work by Ezzamel and Watson (2002), drawing on both social comparison theory and equity theory, suggests that external labour market and board pay comparisons were important in explaining both CEO and directors' pay rewards. Further to these, Malsch et al. (2012) draw on culture theory and specifically the cultural logics for remuneration committees determining executive pay in the Canadian context. The authors found that committee members 'are genuinely doing their best to fulfil their responsibilities, according to their cultural beliefs.'

Studies on the role of the consultant include Conyon et al. (2010), which used a multi-theoretic approach incorporating economic, institutional, managerial power and social comparison literatures to study the role of external consultants on pay setting. The authors mostly drew on neo-institutional theories, with an emphasis on the embeddedness of institutional actors such as the pay consultant, and the isomorphic effects on compensation outcomes. Conyon et al. (2010) suggest that consultants facilitate homogenization of compensation contracts. Gallani (2015) similarly sought explanations for these isomorphic tendencies (Meyer and Rowan, 1977). Drawing on Granovetter's work in social network theory, Gallani examines how compensation consultants as interfirm networks are likely to

that an increase in one executive's pay quantum must be matched for other executives. Equity is assessed based on *pattern* changes in compensation, and not necessarily magnitude.

[17] Devers et al. (2007) state 'human capital theory suggests that pay is driven by unique abilities and skills' (p. 1035)

‘facilitate information transfer and knowledge creation regarding the design of executive compensation packages’ (Gallani, 2015). Using a vectorial approach, Gallani found that firms connected by board interlocks, hiring the same compensation consulting firm, or sharing a blockholder, exhibit a higher degree of similarity in the design of executive compensation contracts than what would be predicted by similarities in organizational characteristics. Adamson et al. (2015) employed an interview-based approach and mobilised the concept of institutional work in analysing the internal dynamics of executive remuneration consultants’ professionalisation project. Through an exploration of the macro organizational level and the micro individual level of remuneration consulting, the authors find inconsistencies, which call into question the extent to which the occupation is in fact seeking to professionalise. However, Adamson et al. (2015) remain wedded to the analytical construct of the professionalisation project.

In the UK setting, two scholars have contributed substantially to our understanding of remuneration committees and remuneration consultants, and the dynamics between the two: Brian Main and Ruth Bender. Brian Main has made significant contributions to the study of executive pay setting and governance in British public companies. Over a career span of 30 years, Main has provided insights on the relationships between pay and performance (1991), the inner workings of remuneration committees (1993), the implications of changes in institutional investor governance guidelines (2006), and (with O’Reilly) economic and psychological perspectives on CEO pay (2010). In drawing on tournament theory, Main, and his co-authors, argued that optimal contracting theory provided no plausible explanation for the continued rise in remuneration. Bender’s early work focused on the remuneration committees and their role in pay determination and governance. Her later work centred on remuneration consultants and their role in pay design and governance. In both instances, the research drew on ‘economic and social-psychological theories’ (Bender, 2003).

There are similarities with respect to the methods used in this research project and studies conducted by Ruth Bender and Brian Main. Both Bender and Main have employed archival and interview-based methods in studying social problems plaguing executive pay design, determination and governance. Their studies have included single actor studies, single event studies (e.g. introduction of an advisory vote in 2002, or the ABI's 1999 governance guidelines), as well as cutting across multiple actors. Neither scholar has studied executive pay tools or the dynamic interlinkages among actors, documents and tools, which is an important contribution of this thesis.

1.2 Fresh perspectives

Executive pay has overwhelmingly been studied through the lens of optimal contracting and managerial capture theories. As Murphy (2013) noted, 'viewing executive compensation as a "horse race" between efficient contracting and managerial power ignores other forces that may be even more important in explaining trends in pay' (p.322). Devers et al. (2007) similarly summarised that 'there is a need for research that more thoroughly examines how different board configurations and various governance contexts and situations influence executive pay' (p. 1036).

To unearth and analyse these underexplored and unexplained factors, approaches are needed to elucidate the ways in which actors, documents (e.g. white papers, governance codes and statutory regulations), and tools (e.g. market trends analysis and pay benchmarking) are collectively engaged in executive pay design and governance. As Murphy (1999) surmised, research may describe the prevalence of stock options in executive pay packages, but it does not answer *why* stock options became an important part of the compensation package. Explanations for why a new incentive scheme is adopted or how new practices are institutionalised is not captured in the discrete columns of pay data. Rather, it is played out in the complex networks in which pay design is negotiated. In essence, there has been inadequate emphasis on investigating *who* designs pay, and *how* and *why* they go about doing so. As Main (2011) noted: 'of course, at the end of the day, determining remuneration through a remuneration committee remains a human process subject to all the cognitive bias and social influence effects to which people are prone' (p.5).

Considerable research is still needed to elucidate the social, political and governance influences on executive pay. Thus, this thesis draws on social and historical perspectives in the study of executive pay practices, and in particular, remuneration consulting practices. In order to develop an account of the field of remuneration consulting practices, this study is first attentive to the historical pre-conditions of the consultants' contemporary pay practices. History has been investigated in a multitude of ways. The following section describes the genealogical approach taken in Chapters 3 and 4.

1.2.1 Genealogical approach

In the opening sentence of his 1971 essay entitled 'Nietzsche, Genealogy, History', Foucault describes genealogy as 'gray, meticulous and patiently documentary' (Foucault, 1971, p. 76). Standing in opposition to the idea that history is linear or evolutionary, Foucault dispels with any pursuit of 'origins' and suggests instead, that through extensive and thorough data collection – 'the vast accumulation of source material' (ibid) - that the researcher can 'recognize the events of history, its jolts, its surprises, its unsteady victories and unpalatable defeats' (p. 80).

The practices and processes observed and the emergence of remuneration consulting work are not assumed to be static or absolute, rather they are temporally stabilised and constantly subject to change and transformation. A genealogical approach destabilises that which appears to be immutable; actors who are taken as self-evident, documents and events, which are presented as natural features of the governance landscape.

In a similar vein to Miller and Napier (1993), this study draws 'attention to the different meanings that have been attached to practices at different moments in time, rather than taking contemporary practices and the meanings currently attached to them as historical constants' (p. 632). What appears self evident and unquestioned are in fact contingent on turns in history, which must not be detached from our understanding or analysis of the present.

Just as a genealogical approach shaped the researcher's engagement with historical events in Chapter 3 and 4, ethnography shaped the researcher's engagement with the fieldsite (Chapter 5). The following subsection describes the influence of ethnographic methodology on the design of the field-based participant observation.

1.2.2 Ethnographic influence

Ethnography, when interpreted epistemologically, has been described as a ‘philosophy of research’ (Anderson-Levitt, 2006), or ‘an attunement, a way of being in the world’ (Ingold, 2001). As Hammersley and Atkinson (2007) have noted, the social world - as far as possible - should be studied in its natural state. A natural setting affords the capturing of empirical richness in terms of context, complexity and ‘mess’. The researcher will be ‘focused not just on what people do but also on understanding the meaning and function of the activities, decisions and actions people undertake in the context in which they are embedded’ (Hall and Messner, 2018).

The terms ethnography and participant observation are often conflated, partly because their meanings are difficult to pin down. In this study, the distinction is made as follows: ethnography is a methodological approach and participant observation (discussed in detail in Chapter 2) is the method employed in ethnography.

1.2.3 Social constructivist perspective

A constructivist view is ‘a set of sensibilities’ which the researcher cultivates (Power, 2017), and importantly encourages and enables the researcher to question and problematise taken for granted practices. At the outset of the study, these sensibilities are tenets that guide the researcher’s initial engagement with the objects of interest. As the study progresses, these sensibilities advance, enabling the researcher to be cognizant and perceptive to the subtle nuances in actors’ language, both spoken and unspoken. For example, at a Breakfast Meeting hosted in May 2017 by a leading remuneration consultancy, and attended by institutional investors, remuneration committee chairs, and heads or reward, among others; there was a perceptible shift in the tone of the speakers and the mood of the room when proxy advisor Institutional Shareholder Services (ISS) was discussed. ISS has attracted derision from many within the field for what is perceived as ‘box ticking’ in ISS’ governance analysis. The ISS vote recommendations are seen to critically shape the voting decisions of institutional investors, and as such, the methodology used is the subject of criticism by consultants, remuneration committees and heads of reward.

In the study of complex relations and interactions amongst human and material actors, this ‘set of sensibilities’ also enables the researcher to probe ‘blackboxes’ whose material action have gone undocumented. This is especially the case in the investigation of pay benchmarking practice in Chapter 6. This social constructivist perspective, and its intersection with reflexivity and conceptual leaping (Klag and Langley, 2013), is discussed in Chapter 2.

1.3 ‘Bricolage’

As detailed above, this study does not drawn on a single theory, but rather is shaped or influenced by a genealogical approach to historical research; an ethnographic approach to field-based research and a social constructivist perspective in problematising taken for granted practices. This mosaic of theories and methodologies can be likened to theoretical ‘bricolage’ (Boxenbaum and Rouleau, 2011). Bricolage has been described as bringing together different concepts from existing theories, thereby giving analytical purchase or shape to an empirically rich and complex setting. Boxenbaum and Rouleau (2011), see theoretical ‘bricolage’ as particularly well suited to developing new knowledge on understudied phenomena (p. 281), as is the case in this study. Arguably the theories are more adjacent and complementary than interwoven. The genealogical approach shapes the first two substantive chapters, and the ethnographic influence and social constructivist perspective shape the latter two chapters.

However, there are two concepts used throughout the thesis. The use of the concepts field and logic are more so in line with the notion of bricolage described above. The use of these concepts is neither wholly disconnected from institutional theory, nor is it orthodox in its application.

Field

Within an institutional field, actors take one another into account as they carry out interrelated categories of taken-for-granted practices within and across organizations (McAdam and Scott, 2005). While the actors themselves may cease to question their norms and practices, it is incumbent on the researcher to question taken-for-granted practices. Institutional theorists, interested in problematising norms, have argued that too many researchers have emphasised the taken-for-granted practices at the expense of intentional (if bounded rational), directive and conflict-laden processes that define fields' (DiMaggio, 1991, p. 168).

In the emergence of the field of remuneration governance, researchers must be attentive to 'both politics and routine in the structuring' of fields (Lawrence, 1999, p. 162). DiMaggio's conflict laden processes find affinity with the ANT agenda, which is also in search of the incommensurable and disruptive activities in which actors engage. Lawrence (1999) encourages attention to cohesion and disruption, routine and peculiar, as it is the homogeneity and heterogeneity in relations and practices, which constitute the field.

Thus, this research seeks to explicate the homogeneity and heterogeneity in social interactions. It is social interactions, which sustain institutional fields, by producing and reproducing, the values and practices that guide members as to how to act and interact (Bell and Haugh, 2015, p. 5). When the values and sources of meaning come to be widely held by the group of actors, and these values shape cognition and provide a frame of reference for decision-making, scholars have described these central organising forces as institutional logics.

Drawing on the example of the remuneration consultant once more, in Chapter 3, the emergence of the field of remuneration consulting work is described, and in particular the norms and practices which come to represent the occupation. Due to a major governance event in 2002, remuneration consultants chose to expand their work domains to include remuneration governance work. The collective sensemaking that occurred at the field level, which led to consultants absorbing governance work, was enabled by a shared logic. As logics provide the lens through which actors contemplate problems and their solutions (Thornton &

Ocasio, 1999, 2008), when beliefs are shared (and where there are competing belief systems), shifts or changes can occur within a field.

Logic

Logics are described as supra-organizational patterns, both symbolic and material, that order reality and provide meaning to actions and structure conflicts (Friedland and Alford, 1991; Thornton et al., 2012). As stated in Thornton and Ocasio (1999):

> (Logics) provide the formal and informal rules of action, interaction, and interpretation that guide and constrain decision makers in accomplishing the organization's tasks and in obtaining social status, credits, penalties, and rewards in the process (Ocasio 1997). These rules constitute a set of assumptions and values, usually implicit, about how to interpret organizational reality, what constitutes appropriate behavior, and how to succeed (Jackall 1988; March and Olsen 1989). (p. 804)

The concept of institutional logic has journeyed considerably from its early formulations in Friedland and Alford's (1991) highly influential paper. No longer tethered to institutional orders, research on the emergence, adoption and transformation of logics has considerably developed and empirically informed the concept. Recent research has been attentive to the role of competing or conflicting logics in bringing about institutional change. This attention to a multiplicity of logics is appealing in this study. This is epically the case given the numerous actors engaged in remuneration governance.

This study is also attentive to the transposition of logics from adjacent fields, and the work of key actors in adopting and transforming such logics. As will be described in Chapter 4, a gatekeeping logic was transposed from the field of corporate governance into remuneration governance. This logic centred on the notion of independence. In this case, when independence first appeared in the field of remuneration governance, it was a rhetorical device with the potential to organise discourse, but not necessarily underlie action. The remuneration committee and consultants importantly enabled 'independence' to take root, thereby attain symbolic and material meaning within the context of the field.

Overall, fields are not assumed to exist a priori; they were discovered through empirical inquiries (DiMaggio and Powell, 1983). Similarly, although logics are described as the invisible structures, which reinforce and sustain fields, it becomes to researcher's work to empirically ground the emergence and transformation of core logics. Academic research on the emergence, re-emergence, and adaptations of institutional logics are relatively novel and unexplored topics (Thornton et al., 2012). It has also been observed that 'while actors may reproduce behaviours consistent with existing institutional logics, they also have the capacity to innovate and thus transform institutional logics' (Thornton et al. 2012, p. 4). As such, the study implicitly engages with the concept of logics in three ways; how logics emerge within a field, how logics focus attention and shape action, and how actors within the field transform logics.

1.4 Key actors

The key actors were identified through an examination of media articles, governance guidelines and regulatory documents, and also through the interview process as actors described their work, and ultimately those they worked with.

Regulators, institutional investors and investor representative bodies, proxy advisors, remuneration committees, executive remuneration consultants, heads of reward, and executive directors were identified as the key actors engaged in the design and governance of executive pay. This subsection briefly describes these actors.

1.4.1 Executive Remuneration Consultants

Importantly advising FTSE 350 remuneration committees are the executive remuneration consultants. The consultants use their knowledge of the 'talent market' and expertise in pay-related tasks (such as pay benchmarking and market trends analysis) to recommend appropriate pay levels and design and introduce new incentive systems (Bender, 2012; Murphy and Sandino, 2010; Conyon et al., 2011; Gallani, 2015). They are seen to be experts in executive remuneration-relevant accounting and tax laws, corporate governance and statutory regulations (Murphy and Sandino, 2010; Cadman et al. 2010).

1.4.2 Remuneration Committees

At the centre of pay governance are remuneration committees, which is the board sub-committee principally responsible for the oversight of executive pay setting. The remuneration committee emerged an increasingly common feature of UK public companies following recommendations made in the Cadbury Report (1992). It is the remit of the remuneration committee (or RemCo) to recommend and monitor the level and structure of executive remuneration, with the goal of promoting long term success for the company, while managing conflicts of interest with executives and the risk of pay ratcheting and pay-performance misalignment (UK Corporate Governance Code, 2006, 2014).

1.4.3 Human Resource/ Reward Function

While a number of the executive remuneration consultancies operate within human capital-focused[18] psfs, the human resource or reward function in this case refers to the team situated within the corporation, and responsible for executive remuneration, broad-based remuneration or both. Some firms will operate distinct HR and Reward function, where the former focuses on workforce pay while the latter focuses on executive pay. This is often the case for the largest FTSE companies. It is more typical for FTSE companies to operate on internal HR team, under which the Executive compensation and benefits director works.

With the falling demand for industrial relations (given the de-recognition of the unions), and separately the rise of the company secretary, the HR function was slow to create a role for itself in executive remuneration design. During the 2000s, the field of human resource management began vying for greater visibility and voice in board matters and executive pay decisions. In the largest FTSE companies, Heads of Reward are increasingly engaging with their company's largest institutional investors, accompanying remuneration committee chairs to shareholder meetings, and designing executive pay packages for the company. This is a group that has been overlooked in the extant literature, and remains under-examined in this study. This is partly because access to these individuals proved challenging, with 'cold' interview requests sent by the researcher going unanswered. Three interviews with Head of Reward/ HRDs were made possible

[18] Alternative terms include Talent, Human Resource, or Reward

through introductions enabled by the researcher's personal and alumni networks. Going forward, it is the aspiration to interview many more members of the internal HR function, as well as engage more fully with the reward management and human resource academic literatures.

1.4.4 Statutory Regulators

The Business Secretary's Department is the epicentre of statutory regulatory change with respect to corporate governance. This Department has undergone several name changes over the decades. From Department of Trade and Industry (DTI), to Department for Business, Innovation and Skills (BIS), and most recently the Department for Business, Environment, Innovation and Skills (BEIS). There is also a broader political discourse, which shapes regulatory attention. This discourse is largely shaped by the political party in power; and often the views of the Prime Minster (as is currently the case) or an influential Cabinet Minister, as was the case when Sir Vince Cable was Secretary of BIS from 2010-2015.

1.4.5 Institutional Investors and Investor Representative Bodies

Institutional investors are broadly defined as organizations that invest on behalf of its members; common examples include pension funds, hedge funds, mutual funds, and asset managers. The larger asset and fund managers typically have in-house teams dedicated to corporate governance analysis. Often in tandem with in –house advice, institutional investors subscribe to external proxy advisory firms, which supply governance analysis and AGM voting recommendations. The main players include Institutional Voting Information Services (a part of the Investment Association[19]), and Institutional Shareholder Services (ISS). ISS is widely known by FTSE companies and has become hugely influential in shaping AGM vote outcomes. It was founded in the US, and deems itself 'the world's leading provider of corporate governance solutions' (ISS website, 2017).

Up until the 21st century, institutional investors, generally, were dominated by pension funds and insurance companies; their percentage of share ownership having collectively grown from 9 per cent in 1957 to 33 per cent in 1975 and 51

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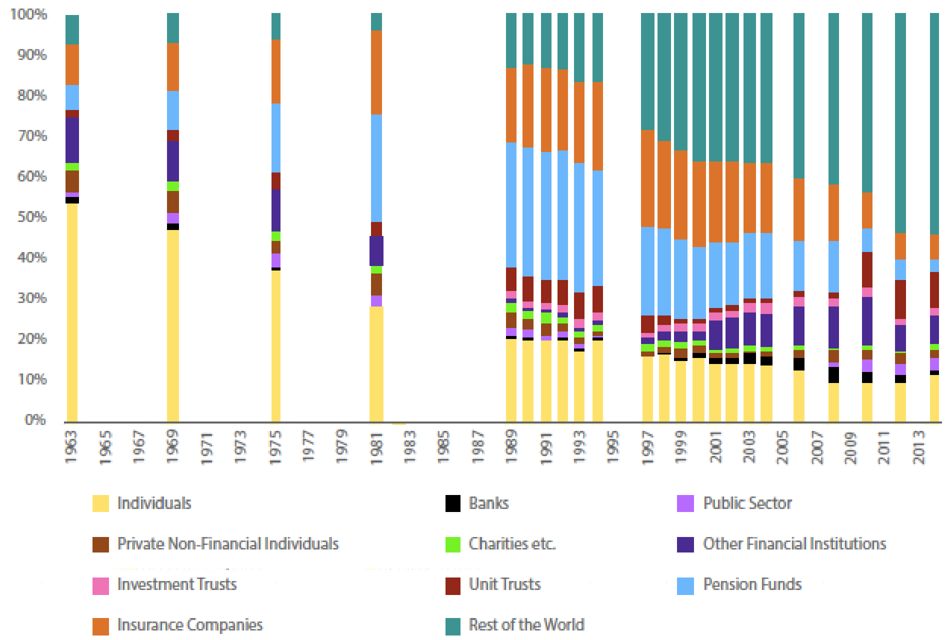
[19] The Investment Association (formerly the Association of British Insurers (ABI) represents the collective interests of its clients, which historically and typically consist of the insurance industry.

per cent in 1991. By 2001, institutional investors were of such political and economic importance that the UK government commissioned an investigation into the corporate governance responsibilities of institutional investors to UK capital markets and British capitalism more generally. As Lord Myners noted in his 2001 report; 'institutional investors – particularly pension and life funds – 'own' and control most of British industry (Myners, 2001). However, the institutional investor landscape has changed drastically since the Myners Report. Within a decade of the report, pension and insurance companies had drastically reduced their holdings. Thus, the majority of FTSE company shares are now held by foreign institutional investors (See Figure 1.3). Holding periods have also changed markedly. In 1950, shares were held for an average period of six years. This average had fallen to six months by 2017.

In spite of Myners' effort, institutional investors were seen to fall short of the stewardship ideal, and a second report was commissioned in 2012. The Kay Review of UK equity markets and long-term decision-making appears has met with similar challenges to its uptake.

Figure 1.3: Shareholder Structure in the UK



Source: Office for National Statistics

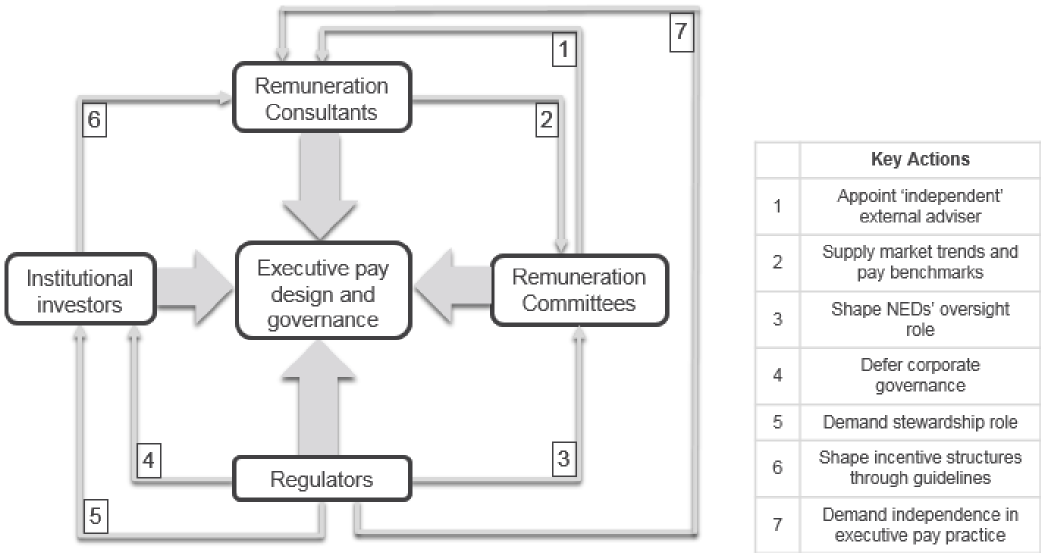
In the context of this study, the term 'Institutional Investors' encompasses the investors themselves, their representative bodies and the external governance analysts and proxy advisors. While a more nuanced treatment of these varied actors is desired going forward, for the purposes of this study, there is more commonality amongst these actors than differences, and as such, the grouping is justified in this instance.

Table 1.2: Institutional investors, representative bodies and proxy advisors

Fund/Asset managers	Institutional investor representative bodies	Proxy advisors
Legal and General Morley Scottish Widows Fidelity Blackrock Schroder Capital Standard Life	ABI RiskMetrics PIRC Pensions and Lifetime Savings Association[20] (PLSA)	Institutional Shareholder Services (ISS) Glass Lewis Investment Association (IVIS)

Figure 1.4 maps some of the key interactions between the actors described above. These interactions, interdependencies, and interlinkages are developed in depth in the substantive chapters.

Figure 1.4: Actions shaping executive pay design and governance



[20] Formerly the National Association of Pension Funds (NAPF). The Association's name was changed in 2015 to reflect a broader remit representing workplace pension schemes as well as lifetime savings issues.

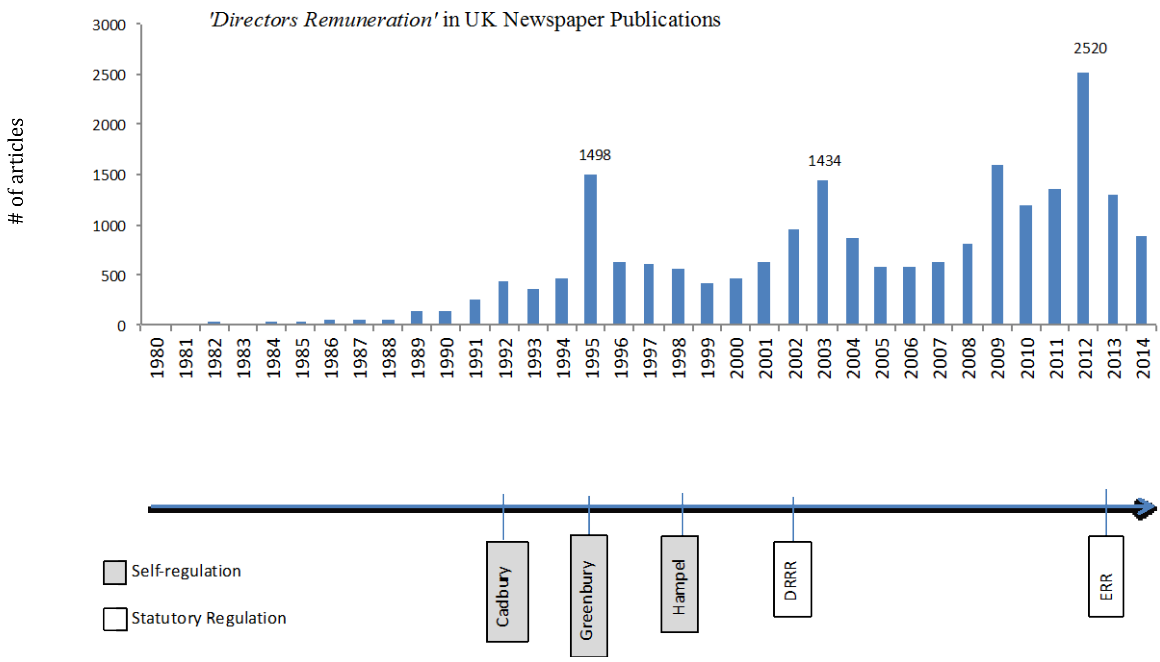
To this point, the chapter has detailed the motivation for research from the standpoint of the academic literature. This research is also motivated by the public policy agenda for executive pay governance. The following section details the recent tone and events in Britain, as they relate to executive pay, the actors who govern pay and how they govern pay.

1.5 The executive pay problem

The governance of executive remuneration has recurrently been the object of political censure and public policy interest over the past 25 years. Attention increased markedly in the wake of the global financial crisis as incentive systems were implicated in excessive risk taking and subsequent bank failings. The initial response to the crisis resulted in the Walker Review (2010) and Enterprise Regulatory and Reform Act (2013), yet the appetite for governance has not abated. From July 2016 to April 2017 - four reports have called for changes to the design and governance of executive pay. In all four instances, the pay problem was described differently, resulting in conflicting recommendations as well as bold attempts to fundamentally alter or abolish long established pay practices.

Public, political and media attention to the issue of executive pay has ebbed and flowed since the 1980s, with political condemnation invariably triggered by events such as corporate failings, the financial crisis, stagnating wages, and growing concerns over labour inequality. Figure 1.3 illustrates the frequency with which the term ‘directors remuneration’ appeared in leading British newspapers, from 1982 - when the term first appeared - to 2014. The graph is intended to give the reader a sense of the cycles of media interest in executive pay. The main regulatory and governance initiatives - the Cadbury Report (1992), the Greenbury Report (1995), the Hampel Report (1998), the Directors Remuneration Report Regulations (2002), and the Enterprise and Regulatory Reform Act (2013) – are detailed in a timeline below the bar graph. These governance events unsurprisingly correlate with surges in media attention on the issue of pay.

Figure 1.5: Frequency of 'Directors Remuneration' in UK Newspapers



With the exception of the DRR (2002) and the ERR (2013), the approach to governance of executive pay has largely rested with best practice corporate governance codes, established by industry-led committees or institutional investor representative bodies such as the Association of British Insurers (ABI) and the National Association for Pension Funds (NAPF). Shareholders and particularly institutional investors have been cast in an oversight role since the 1980s. Thatcher's enterprise culture, premised on less state intervention in private sector and market functions, meant that shareholders – those with 'skin in the game' – were called upon to monitor and actively participate in governance systems. Shareholders' 'voices' were later bolstered by the DRRR (2002) and the ERR (2013) which introduced a mandatory non-binding vote on the remuneration report and a binding vote on the remuneration policy, respectively.

Given the significant regulatory changes introduced in the ERR (2013), in particular, it was somewhat surprising that less than two years later, the Investment Association established the Executive Remuneration Working Group (ERWG), an independent panel, to address concerns with complexity in executive pay design. Concurrently, the Big Innovation Centre[21] convened the Purposeful

[21] The Big Innovation Centre is a British based open innovation hub. Open Innovation is "a distributed innovation process based on purposively managed knowledge flows across organizational boundaries, using pecuniary and non-pecuniary mechanisms in line

Company Task Force in 2015. This was followed by two state-led initiatives, a BEIS Parliamentary Select Committee report and a BEIS-led consultation on corporate governance in 2016. The following subsection describes these initiatives in further detail.

No solution in sight

There is consensus amongst business leaders, institutions, think tanks, boards and politicians that executive pay should be aligned with the long-term strategy of the company, incentivising the generation of long-term value while dis-incentivizing the pursuit of short-term results at the expense of long-term results. Recent discourse, both locally and internationally[22], has centred on stewardship, long termism and a broadened stakeholder concept (Economist, 2016; WEF, 2016; May, 2016) as critical for the improvement of executive pay design and governance. Yet, this is where the similarities end.

Political interest in corporate governance surged in response to 'failings' at Tesco, BHS, and Sports Direct. These governance failings ignited a fierce debate on executives' corporate responsibilities and the extent to which these include worker and societal interests. Concerns with corporate governance has also been voiced recently in academic and policy circles due to the perceived entrenched wealth for the top 1% (Piketty, 2013; Oxfam, 2016) or the 'privileged few' (May, 2016), and the implications for 'social cohesion' in Britain (TPC, 2017). The incredible growth in executive pay over the last 30 years contrasts sharply to stagnating or declining real pay levels for the broader workforce. While concerns with pay inequality have been associated with executive remuneration in the past

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with the organization's business model" (Chesbrough and Bogers, 2014). This particular innovation hub is a space for businesses, national public agencies and universities to pool and share resources, including technology, IP, data, skills, space, entrepreneurial finance.

[22] Examples include: (1) Report publication in September 2016 by the International Business Council of the World Economic Forum entitled *The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth*. (2) The Investor Forum - representing approximately 35% of the FTSE all share market cap – was established to 'promote a longer-term approach to investing in UK companies.' (3) Martin Sorrell, CEO of WPP, and one of the most controversially paid executives in Britain, reiterated the need for long termism in the Economist Special Issue on 'The World in 2017.'

(The Royal Commission on the Distribution of Income and Wealth[23], 1975), the link has been substantially reinforced in the wake of the global financial crisis, the growing anti-capitalist and anti-corporatist Occupy movements in the UK.

Despite the consensus described earlier, non-state actors have conceived of the pay problem differently and subsequently tabled solutions, which stand in opposition to key government proposals. In September 2015, leading institutional investor body, the Investment Association, launched an Executive Remuneration Working Group to radically simplify executive pay. The group's final report[24] identified the problem with executive pay as follows:

> Executive pay is opaque to the outsider and difficult even for some participants, remuneration committees and shareholders to understand. Growing complexity has contributed to poor alignment between executives, shareholders and the company, sometimes leading to levels of remuneration which are very difficult to justify.
>
> A central cause of this complexity is that companies feel they are forced to adopt a one-size-fits-all LTIP model.

The ERWG recommended three solutions to the LTIP problem: an improved LTIP Model, the payment of deferred bonuses in shares, and/or the introduction of Restricted Share Awards.

Concurrently, the Big Innovation Centre convened the Purposeful Company Task Force. The Task Force, a collaboration of academics and executive remuneration practitioners, published The Purposeful Company Policy Report in February 2017. The Report made a strong case for the de-emphasis of performance-based incentives, arguing that evidence demonstrated that incentive plans based on performance targets over periods of 1 to 3 years may cause short term behaviour to the detriment of purpose and long-term value. The report encouraged the use of long-term equity and debt holdings, with equity released to executives in phases over 5 to 7 years.

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[23] Also known as the Diamond Commission

[24] The final report was published in July 2016

As noted earlier, in 2016, the state was catalysed into action by corporate failings at Tesco, BHS and Sports Direct. In her bid for party leadership, Theresa May homed in on corporate governance in order to demonstrate her commitment to righting the corporate wrongs. May stated that ‘there is an irrational, unhealthy and growing gap between what these companies pay their workers and what they pay their bosses’ and further stated:

> The people who run big businesses are supposed to be accountable to outsiders, to non-executive directors, who are supposed to ask the difficult questions, think about the long-term and defend the interests of shareholders… as we have seen time and time again – the scrutiny they provide is just not good enough.

May went on to suggest a binding vote on remuneration policy, full disclosure of bonus targets and the CEO pay ratio, and consumer and employee representation on boards. On all these points, she received push back from think tanks, the Institute of Directors, institutional investors or corporations.

The Government’s Green Paper on Corporate Governance was released in November 2016 [25] and the Department for Business, Energy and Industrial Strategy (BEIS) report entitled ‘Corporate Governance’[26] was published in April 2017. In contrast to the ERWG and Task Force reports, the BEIS committee report recommended the abolition of LTIPs altogether by 2018 and the re-introduction of deferred stock options. The BEIS report also recommended the publication of pay ratios, and the inclusion of employees on the remuneration committee, items that met with objection when proposed by Theresa May.

Some have voiced concerns that statutory regulation should be limited or targeted (Ferrarini et al., 2010), or it is not yet warranted given the recency of the 2013 statutory changes, and its unproven effectiveness. Where the government has, in recent decades, adhered to a practice of evaluating regulatory effectiveness after major legislative change, and/or prior to further regulatory action, this latest

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[25] The Green Paper, issued by Business Secretary Greg Clark, called for views on executive pay, strengthening employee and customer voice, and corporate governance in large private businesses. The consultation period ended in February 2017, and the final report is pending.

[26] The BEIS report was produced by a Commons Select Committee, Chaired by Labour’s Iain Wright.

iteration in government intervention does not appear to have adequately assessed the previous round of regulatory changes. With only one AGM season of shareholder voting on the remuneration policy having elapsed, there is limited evidence on the effectiveness of the mandatory voting mechanism introduced in 2013.

A rushed regulatory response to public indignation threatens to overlook key concerns. Contemporary practices in executive design are the product of complex social, economic and political conditions; 30-year histories of establishing norms, structures and practices. These pre-conditions have often been subordinated in the extant literature, with researchers listing key governance events as a summary of the institutional environment in which executive pay is designed and governed. The following section reviews the academic literature, further highlighting the need for a more careful and in-depth examination of the system of remuneration governance, both past and present.

1.6 Key Contributions

The substantive chapters contribute to several academic discourses.

Table 1.3 Contributions to academic discourse

Chapter	Overview	Academic research
3	The emergence of executive remuneration consulting	The emergence of occupations, the sociology of occupational groupings
4	The co-emergence of remuneration consultants and remuneration committees	Auditor independence; Accountability, Gatekeepers and corporate governance
5	Field based study of Remuneration consulting work	Social construction of knowledge and expertise; Elite identities; Knowledge-intensive firms, organizations and work (KIFOW)
6	Pay benchmarking practice	Social processes of commensuration, Theory of pay benchmarking

First and foremost, much has been assumed of remuneration consultants with respect to their role in the upward ratchet of executive pay. Yet, there has been little in depth study of these critically placed actors. This thesis not only studies the historical emergence of executive remuneration consulting, but also the consultants' situated practice. Neither a comprehensive history of the occupation, nor a field-based study of executive remuneration consulting is known to the researcher; thus, the contributions are manifold. There are two key findings when analysing the historical emergence of the occupation. First, consultants (or rather the lawyers, accountants and actuaries who first carried out executive pay advisory work) were not pursuing a professionalisation project (Larson, 1977). In its place, a dominant market logic propelled the formation of the field of remuneration consulting practice. Later, as regulation of executive pay disclosure exploded in 2002, the occupational grouping appealed to a gatekeeping logic, thereby broadening their work domain and producing their relevance in remuneration governance work.

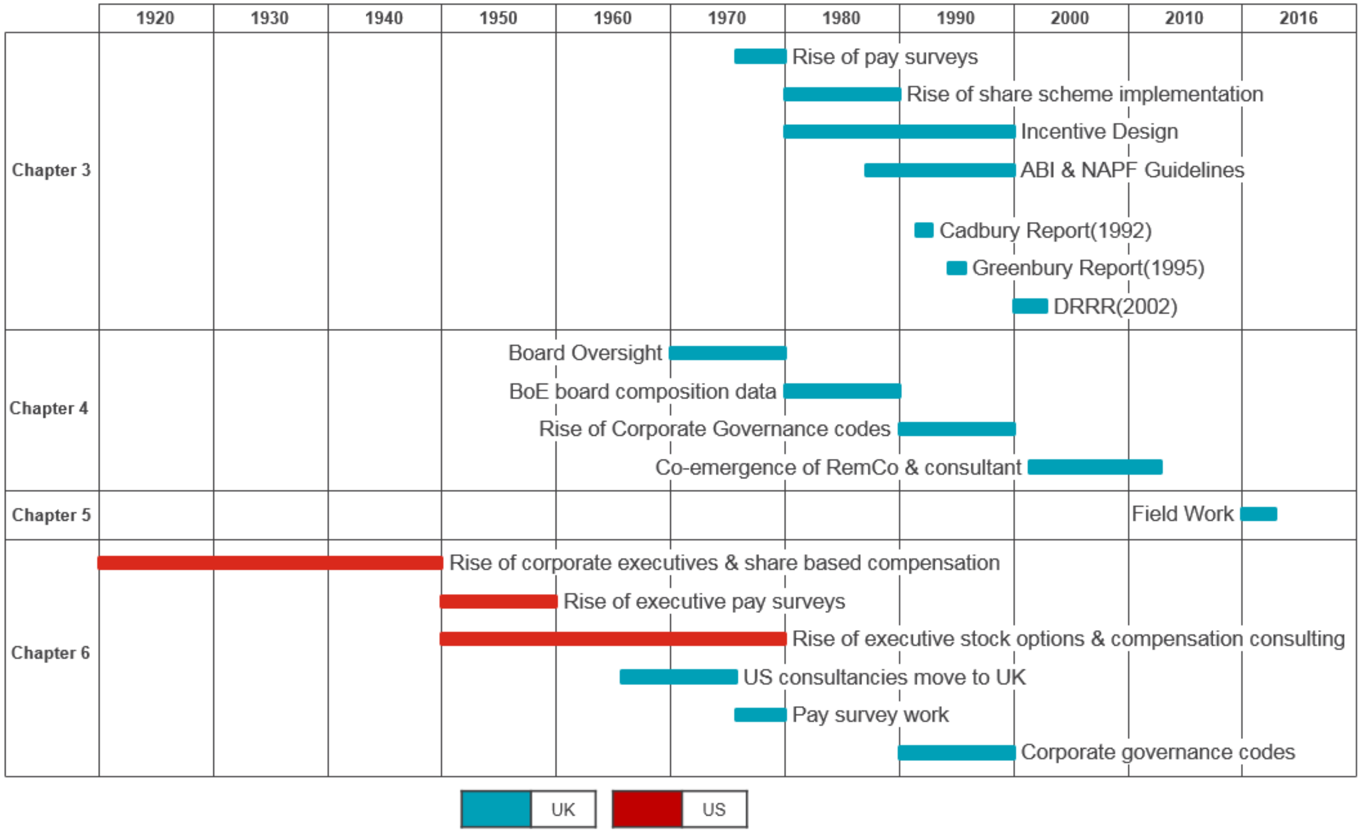
The study of consultants' day-to-day tasks informs two discourses. In the sociology of professions and occupations, there has been a lengthy debate on the production of knowledge and expertise, and the means by which market closure is achieved and legitimacy sustained in the absence of abstract knowledge, licensure, or accreditation processes. Existing with neither abstract knowledge (Abbott, 1988) nor accreditation, the thesis contributes to our understanding of how vulnerable occupations buttress their expert claims. Taking a deeper dive - in Chapter 6 - with respect to studying the practice of pay benchmarking, the thesis describes the mechanisms by which the ratchet occurs in pay benchmarking work, and the cultural logic, which propels it.

By investigating the broader network of human and material action, and explicating the linkages and interdependencies within the network, the thesis enriches our understanding of the dynamic processes involved in executive pay practices. It is in analysing these linkages that scholars can make sense of the executive pay packages and practices, which have become increasingly controversial in recent decades. The contributions of each chapter are presented in further detail in Chapter 8.

1.7 A brief note on chapter overlap

In Chapters 3, 4 and 6, where key governance episodes or events are important pre-conditions for the emergence of norms and practices, there is a tendency for the historical narratives to include redundant information. Where possible, such overlap is avoided. However, as the chapters are also sufficiently distinct, often with stand-alone literature reviews and different conceptual frames, repetition is preferred to the underdevelopment of the narrative. Figure 1.6 below illustrates the historical overlap.

Figure 1.6: Timeline of key executive pay-related events and governance episodes



Source: Researcher

Chapter 2
Research Methods

2.0 Introduction

In Chapter 1, the study is described as one deeply interested in the social dynamics of executive pay design and governance in UK public companies. However, when the study was initially proposed for doctoral research, it was fitted with a different methodological point of departure. While changing a study's methods is neither surprising nor unusual in the course of doctoral research, fundamental changes to the methodological approach are less common. Although methodology has been described as 'a general approach to the study of research topics' (Silverman, 1993), there is arguably little that is 'general' when comparing and contrasting methodologies.

The methodological approach taken by a researcher provides insights as to the philosophical underpinnings, which shape and guide the research project. Methodology influences how the researcher puzzles over phenomena, the questions designed to explore the phenomena, and the data collected, interpreted, theorised and re-presented in written accounts. The critical re-directions taken in this research were integral in shaping the research study and design, and importantly, the researcher.

The chapter is organised as follows. Section 2.1 briefly describes the original formulation of the study and the reasons it was re-formulated. Section 2.2 briefly summarises the methodological approach, and Section 2.3 describes the research design. Section 2.4 details the data sources, Section 2.5 describes the approaches taken in analysing the data and writing the chapters.

2.1 Original project formulation

From the study's first conceptualisation in early 2012, executive remuneration design and determination in large public companies was the object of interest. The initial formulations of the research question sought answers to the effects of regulation on executive pay packages. The methods - though loosely specified – were ‘mixed’, suggesting both qualitative and quantitative methods would be used in the study. There was the idea that interviews and/or surveys could supply data, which could then be coded into quantified or binary data points. These data points in turn could be used in multiple regression analyses. Regression analysis held the potential to elucidate causal relationships between executive pay and key features of the institutional environment. Specifying the independent variables for the regression analysis required a sound understanding of the institutional environment in which public company executive pay was designed.

Through an examination of the remuneration literature within the fields of accounting, economics and finance, it became evident that accounts of the institutional environment failed to critically engage with who, why and how questions. Such as: Who designs pay? How is pay designed? What work tasks are involved in designing pay? And then at the more granular level: Why are performance share plans chosen over stock options? Why is total shareholder return used over earnings per share when measuring performance for triggering incentive payouts?

These are just a small sample of the questions, which went unanswered as the study progressed. This raised concerns about building an empirical model upon an incomplete or rather inadequately researched foundation. Adding to the concerns was the awareness that the results from prior empirical quantitative studies were largely ambivalent. The theoretical and conceptual reliance on optimal contracting theory and ‘managerial capture’ cast a long shadow on research questions and research design. The extant body of research was what Miller and Power (2013) might describe as *methodological reductionism* [27] (p. 575). [28] Furthermore, executive remuneration research was stagnating. New research projects were often

[27] Italics in original

[28] This study is not at attempt to engage in a critique of empirical quantitative methods (or market based accounting research). The researcher recognises the limitations of these studies, in particular, where accounts are ‘behaviourally thin’ (Miller and Power, 2013, p.575), where assumptions are oversimplified or key actors are altogether omitted from the research.

premised on the latest change in regulation, such as the introduction of a mandatory non-binding vote on the remuneration report in 2002 or the introduction of a mandatory binding vote on remuneration policy in 2013.

As Coffee (2006) described in his influential book, ‘academics tend to plough and re-plough the same furrow over and over’ (p.1), thereby overlooking a host of actors and action. In corporate governance research, Coffee identified several examples, including security analysts, credit-rating agencies and investment bankers, and their under-researched role in corporate gatekeeping. In remuneration governance research, rich accounts of executive remuneration consultants, reward and human resource managers, institutional investors and remuneration committees would advance this field of research. Yet, behaviourally rich accounts were impeded when researchers ‘paint’ actors with the same broad (corporate governance) brush. This particularly occurs in remuneration governance literature when the conflicts of interest anticipated for an auditor’s gatekeeping role are assumed to be the same conflicts of interest for remuneration consultants or remuneration committee members. Yet, as Covaleski and Dirsmith (1990) state:

> “Social reality is too complex and ill-structured to be adequately represented by any one data set, theoretical perspective, or organizational position of social actor studied, because these tend to suppress conflict, anomaly and uniqueness.”

Researchers should instead seek social explanations for the choices which actors make, instead of conflating meaning across different actor groups. Ideas such as managerial capture should not be taken as self-evident, but empirically grounded with respect to the key actors identified in remuneration governance. The study of pay design and governance must ‘maximise information, not facilitate generalisation’ (Lincoln and Guba, 1985). Indeed, generalisations have a role to play within academic research, however, persistent contradictory findings within the remuneration literature has undermined the generalisability of research findings.

It is for these reasons that the project's initial interest in quantitatively testing the determinants of executive pay was abandoned. The object of interest shifted toward investigating the key social actors, their actions, and their interactions. It is within the web of interrelations that the dynamic and highly negotiated processes of executive pay design and governance is revealed. Thus, new research questions were created and the research design fundamentally re-imagined.

A new proposal was agreed upon in March 2014, and an interview protocol was designed for the first exploratory interviews between March and May of 2014. Through these stages, the interest in social interactions amongst actors deepened. As established within qualitative research traditions, social reality is constituted through social interactions (Berger and Luckmann, 1966; Lincoln and Guba, 1985; Power, 2003). A social constructivist perspective emerged as the core philosophy guiding the study's methodological approach. The following section unpacks this methodological approach.

2.2 Methodological approach

As described in Chapter 1, Chapter 3 and 4 draw on a genealogical approach to studying the historical emergence of remuneration consulting, the emergence of remuneration committees and the co-emergence of remuneration consultant and RemCos. Chapter 5 is based on a participant observation and interviews. The engagement in the field was influence by ethnographic methodology. A social constructivist perspective shapes Chapters 5 and 6.

2.3 Research Design

Given that social relations and interactions were of principal interest in this study, qualitative research methods were best suited to collecting the empirical material needed to answer the research questions posed. Qualitative methods were described by Covaleski & Dirsmith (1990) as:

> 'an umbrella term applied to a number of interpretive techniques directed at describing, translating, analysing, and otherwise inferring the meanings of events or phenomena occurring in the social world'

However, these methods are not without challenges. Covaleski & Dirsmith (1990) describe the paradox for qualitative researchers, ‘that in recognizing the social construction of a subjective reality, the objectivity of the research itself becomes problematic’ (p. 545). This study is the social construction of a subjective reality, and thus rejects the notion that some objective reality exists ‘out there.’

In order to achieve plausibility and trustworthiness of the study, there were a number of procedures interwoven from the research phase to bolster the rigour of the data collection processes. These included establishing interview protocols prior to commencing the interview series. The protocol not only included the four interview questions but an adjacent column detailing the rationale for the question. The practice of justifying the question and the wording of the questions, shed light on possible interviewer biases. They procedures functioned as checks and balances on data collection and analysis processes.[29] As noted earlier, there are three key sources of data: archives, interviews, and fieldnotes.

2.3.1 Archival data

Archival materials provide invaluable insights into historical events, and are often the only accounts available of these past events. Archival accounts are ‘not neutral, factual, technical documents’ (Van Maanen & Pentland, 1994); archives interpret the events that are recorded, upon which the researcher applies another layer of interpretation. Rather than a limitation of archival use, these layers of interpretation enable the archives’ conditions of possibility. As Ventresca and Mohr (2001) describe:

> ‘the use of archival materials is never innocent or transparent. The conditions of their production and of their persistence mean that materials often offer partial or contradictory evidence for an interpretation. Recognition of the inherently political and residual features of archival material is thus a central methodological concern.’

[29] For this, I am particularly indebted to Professor Matthew Hall for insisting that I develop protocols and procedures for all methods deployed.

It is this contradictory evidence and the political and residual features which trigger investigation into corollaries adjacent to the document. Thus, the interpretative potential of the archive enables the researcher to connect with the broader fabric of ‘agencies, arguments and mechanisms’ (Miller, 1991, p.733). As Carnegie and Napier (1996) described, but within the context of accounting histories:

> ‘The purpose of widening the scope of the “archive” in this way is to find not only evidence of the form of past accounting records but also some idea of how those who prepared and used the accounts regarded (or perhaps ignored) them.’ (p. 18)

Thus, in this study, it is not enough to review the regulatory and governance documents. In order to glean a sense of the broader relevant discourses, archival materials were collected from multiple sources. These included the financial and mainstream press (e.g. The Financial Times, The Guardian, The Sunday Times), governance guidelines (e.g. ABI, NAPF), draft regulations, consultation responses, final (and enacted) legislation, transcripts from parliamentary hearings, periodicals (e.g. The Economist, The Institute of Directors, the Bank of England), the Cadbury Archives (for data specific to directors’ remuneration), academic research, and critically, the corpus of corporate governance codes pertaining to remuneration governance from the 1970s. Table 2.1 (on p. 47) lists the corporate governance codes and regulatory documents reviewed.

In addition to the documents above, the years 1983, 1984, 1985 and 1986 of the *Director* monthlies, totally 48 magazines, were reviewed to ascertain the Institute of Directors’ (IoD) and the industry’s ‘take’ on Thatcher’s income and taxation policies and importantly the introduction of executive stock options from 1984. Articles that focused on directors pay or pay consultants were read in detail, the excerpts from which were stored in a document dedicated to Institute of Directors-related materials.

Table 2.1 Corporate Governance Codes and Regulation

Year	Report Title
1973	Watkinson Report: "The Responsibilities of the British Public Company"
1992	Cadbury Report: "Financial Aspects of Corporate Governance"
1995	Greenbury Study: "Directors' Remuneration"
1998	Hampel Combined Code on Corporate Governance
1999	Department of Trade and Industry Consultative Document
2001	Myners Report: "Institutional Investment in the UK: A Review"
2002	Directors Remuneration Reporting Regulations
2003	Higgs Report: "Review of the role and effectiveness of non-executive directors"
2009	Walker Review (2009) "A review of corporate governance in UK banks and other financial industry entities"
2013	Enterprise Reform Bill
2016	Executive Remuneration Working Group Business, Energy & Industrial Strategy[30] (BEIS) Green Paper

The Cadbury Archives, housed by the Cambridge Judge Business School include papers, letters, meeting minutes and hand written notes compiled and stored by Sir Adrian Cadbury from his time chairing the Cadbury committee. The archive's documents are coded by theme. Of the top 20 themes, 'executive remuneration' comprised 35 documents and 'remuneration committees' comprised 15 documents. All 50 documents were reviewed. The letters, meeting minutes, and hand written notes, which captured interactions between Sir Cadbury and Jonathan Charkham (then Governor of the Bank of England), were of particular use in gleaning their views on remuneration within the context of the committee's deliberations and the challenges likely to be encountered with possible governance mechanisms (for example, a shareholder vote on directors' pay).

[30] Formerly the Department of Trade and Industry (DTI)

Remuneration consulting field

In order to construct an image of the field of remuneration consulting, the researcher created a database of senior consultant profiles. Ten columns were created: Name, Current Company, Current Role, Previous (1), Previous (2), Previous (3), Previous (4), Qualifications[31], Additional Notes, LinkedIn, (See Appendix A for an extract from the 'Profiles' database).

The majority of these columns were populated with data from the consultants LinkedIn profiles, firm website profiles or biographies, and interview data. The title 'Previous' referred to the consultants' prior jobs or roles (if within the same firm. The heading 'LinkedIn' was populated with the 'profession', which the consultant selected in creating their LinkedIn profile. As the LinkedIn software presents a pre-established list of occupations and careers, of which remuneration consultant is not included, the consultants selected from the provided list in defining their profession. Thus, the self-declared professions included Management Consulting, Financial Services, Accounting, Human Resources and Legal Services. In total, 62 profiles were created for consultants working at the eight leading remuneration consultancies.

The researcher also created a database to capture key information from the first Directors Remuneration Report for FTSE 100 companies. Eighty-three (83) of the FTSE 100 companies Remuneration reports were collected, and information entered in three columns: Company name, Adviser names, Narrative. The 'Narrative' was the excerpt from the report, which detailed the number of times the remuneration committee met, their remit, their advisers, and in some cases whether the adviser provided other services, whether the adviser also worked for management, and a more detailed breakdown of the services provided (for example, market trends, incentive arrangements, benchmarks, pay surveys).

[31] The title 'Qualifications' was synonymous with designations or accreditation programmes, and also included tertiary education.

2.3.2 Participant Observation

Participant observation is motivated by the desire to attain practical non-verbal knowledge of remuneration consulting work. As Burawoy (1991) stated:

> 'Advantages of participant observation are assumed to be not just in direct observations of how people act but also how they understand and experience those acts. It enables us (the researcher) to juxtapose what people say they are up to against what they actually do' (p.2).

In the request for field access, the researcher requested both elements of participation in remuneration consulting work, and observation of work activities. While the merits of both participating in work and observing work have been well established in the literature, some have argued that the perspectives of participant and observer are incommensurable (or oxymoronic) (DeWalt and De Walt, 2011). Paul (1953) states:

> Participation implies emotional involvement; observation requires detachment. It is a strain to try to sympathize with others and at the same time to strive for scientific objectivity.

Yet, other researchers see this dichotomising as unhelpful. That observation enables only the documentation of the social setting but not an experience of it is untenable, 'because to study the social world we must be part of it (see Atkinson and Hammersley 1998). However, there is something to be said for the ability to work alongside and in tandem with the key actors at the centre of the social phenomena under investigation.

As Hall and Messner (2018) note, participation enables the researcher 'to gain an insider's understanding by learning to experience it as the members do'. It is participation, which allows the researcher to make local practice intelligible through interpretations of meaning. Indeed, the participant must maintain a heightened awareness of where they 'situate' themselves with respect to the interpretation of meaning. This is why reflexivity is paramount in the work of qualitative field research. The researcher's reflexivity is discussed in further detail later in the chapter.

As Burke (1992) stated of historical narratives, but for which there is applicability to field based narratives, the researcher needs ‘to find a way of making themselves visible in their narrative, not out of self-indulgence but as a warning to the reader that they are not omniscient or impartial and that other interpretations besides theirs are possible’ (p. 239).

Thus, the researcher should have authority over the written account; not write an authoritative account. The calibre of a written account relies on the plausibility and trustworthiness (Covaleski and Dirsmith, 1990) of the data collection and analysis processes, and the conclusions drawn. Thus, the research design is critical in mapping the procedures by which data will be collected, interpreted and re-presented in the written account.

Field access

Field access was an early aspiration of the study, and each interview presented an opportunity to explore whether the interviewee’s consultancy might entertain an internship opportunity. During a May 2015 interview with a principal at one of the leading remuneration consultancies, the principal was receptive to the researcher’s request for field access. Securing field access took a further 10 months, during which four senior members of the consulting team interviewed the researcher on two separate occasions. The outcome was a 10-week internship during which the researcher would work as an entry-level analyst, able to both engage with work activities but also allowed to observe work activities. Due to the sensitivity of client data, the researcher was not permitted to work directly on client communications.

Field study design

Given the short duration of the field engagement, prior to entering the field, the researcher targeted certain areas of work for further investigation. As Hall and Messner (2018) noted, the question of what to observe is largely driven by the research question and interests of the researcher. Given that interviews with remuneration consultants had occurred in advance of the participant observation, there was sufficient data to shape the researcher's ideas about the core activities warranting more in depth study. Thus, the scope of the participant observation was guided by the following questions:

(i) How are pay benchmarks constructed?
(ii) What are the sources of pay data? Who collects it? Where is it stored? Is it in excel spread sheets? If so, how are the spreadsheets structured?
(iii) Who is the client? How do consultants interact with clients?

There were also research questions, which links the field-based research to broader themes within academic discourse:

(iv) What are the material systems, which enable pay design?
(v) How is the 'market for talent' socially constructed?
(vi) Is pay benchmarking scientific or based on consultant judgement?

While the research questions (above) provided some direction or guidance for the fieldwork, it did not preclude the observation of additional points of interest. It was not challenging for the researcher to maintain a sense of what was salient or important (Lincoln and Guba, 1985) in remuneration consulting work.

Collecting field data

As Latour (2005) once stated, 'everything is data'. In order to capture this multitude of data, Latour suggested the use of four notebooks, which represented different, but connected, purposes. The first three of his suggested notebooks were emulated in this research design. Latour's fourth notebook manifested as a list of theoretical themes, which emerged from the data analysis process.

Notebook 1: The first notebook presented a detailed research log of dates and times the research would be conducted in the field. The first fieldwork notebook was the 'fieldwork research log'. See Appendix B for a summary of this notebook.

Notebook 2: This notebook comprised the researcher's field notes (Flick, 2014), which detailed what was happening and what was being said, and recorded nonverbal cues and salient details of the context (Hall and Messner, 2018). For example, in each meeting the researcher attended, the seating plans were quickly sketched. The observations were first recorded descriptively, in order to grasp the field's complexity (Hall and Messner, 2018; Spradley, 1980). The second notebook recorded both this 'expanded' account, and the 'condensed' account (Spradley, 1980).

Notebook 3: The third notebook sought to capture the researcher's thoughts, impressions, concerns, and puzzles, particularly as they relate to interactions with participants (Hall and Messner, 2018). Rather than a standalone book, a column was added adjacent to the 'expanded' fieldnotes in Notebook 2. This journal enabled the researcher to develop an ongoing reflexive awareness regarding her role in and 'closeness' to the field as the research unfolded (Gonzalez-Polledo, 2015).

The fourth notebook suggested by Latour seeks to capture the effect of the research on academic ideas, themes, discourse, concepts and theory. As Hall and Messner (2018) note:

> 'These notes may be sparked by a particularly interesting or unusual event or statement, or seeing a connection between an experience in the field and a particular theoretical idea or concept.'

While a fourth notebook was not explicitly used, the underlying ideology was at the forefront of the thematic analysis of the data. While early readings of the data generated analytical codes, the second and third readings resulted in a list of theoretical codes. The theoretical codes were not 'concrete', rather these codes were ideas about how the empirical material linked to existing theories and concepts. It was an unfiltered and unencumbered process. It was only later that these ideas would be 'tested' for validity. This process of testing is discussed in Section 2.4.

2.3.3 Interview Design

Interviews have been described as the 'bastion' of research in the social sciences (Briggs, 1986, p. 1). Interviews are seen to be conducive to a qualitative understanding of complex social phenomenon (McCracken, 1988), however, the preparation required is not to be underestimated. As Qu and Dumay (2011) caution, interviews demand ‘intensive listening and note taking, but also careful planning and sufficient preparation’ (p. 239).

Careful planning not only entails the creation of an interview protocol, prior to that, the researcher must be clear on their beliefs about the role of interview data in the study, and the researcher’s role within the data collection and interpretation processes. Alvesson delineates two approaches or interview styles: the romanticist and the localist. In the romanticist view, Alvesson describes the researcher as one who believes they are uncovering some truth. The localist, on the other hand, treats interviews as social encounters, and ‘not merely a neutral conduit or source of bias but rather the productive site of reportable knowledge itself’ (Holstein and Gubrium, 1995). It is furthermore an awareness of the researcher’s role in constructing that ‘reportable knowledge.’ As Hammersley and Atkinson (2007) noted, ‘social phenomena do not exist independently of people’s understandings of them.’ This has two dimensions to it; first, how phenomena are understood by the actors, and second, how their accounts of such phenomena are understood and interpreted by the researcher. Thus, interview data, once interpreted and analysed produce distilled or ‘situated accounts of the phenomenon (Alvesson, 2003).

In addition to designing the interview questions to be included in the protocol, there are a number of decisions for the qualitative researcher to contemplate, such as, which individuals to interview, the target number, and the type of interview (i.e. structured versus unstructured) (Doyle, 2004). With respect to the target number of interviews, interview-based researchers have previously made reference to a saturation point. That is, the point at which the collection of new data sheds no further light in answering the research questions under investigation. This is an important distinction as each interview presents new information (and therefore potential data), even if at a diminishing marginal rate. However, saturation is gauged with respect to the information provided *within* the scope of the research questions. The interviews with remuneration consultants met such a point of saturation; however, interviews with the other key actors did not. As the study focused predominantly on the emergence of remuneration consulting, the consultants and their work, this is not surprising. However, Chapter 7 will address in detail the future steps with respect to interviews with the other key actors, and how these interviews will inform research questions pertaining to the dynamics processes surrounding executive pay practices.

Biographical Interviews

There were two categories of interviews conducted in this study. The first category entailed interviews, which probed the career-biographies of former and current managing partners at the leading remuneration consulting practices. These eight (8) individuals had careers, which began in the 1970s or 1980s. The interviewees also represented the earliest wave of prominent remuneration consultants in the UK. In over half of the cases, the respondent was the first lead partner of newly formed remuneration consulting practices. The biographical flows of these central actors (Padgett and Powell, 2012) were influential in constructing the historical narrative presented in Chapter 3.

While the accounts provided by the managing partners were rich and informative, Padgett and Powell (2012) have cautioned that often too much explanatory power is assigned to key individuals. However, in this case, the very nature of the field of remuneration consulting limited this from happening. Due to the high labour mobility of senior consultants, key events in the emergence of the consultancies were recounted by multiple interviewees. For example, there were three collections of the formation of the Remuneration Consultants Group from within this category of interviews (and additional accounts from the other category in interviews). This served in bolstering the researcher's confidence as the narrative was constructed.

This unstructured interview style was exclusively used in the biographical interviews with the eight partners. In seeking to capture their 'biographical flows' (Padgett and Powell, 2012), the researcher refrained from directing the conversation, and instead interjected where clarification, examples or elaborations were needed.

Semi-structured interviews

Semi-structured interviews were used for the second category in the interview series. For consultants, remuneration committees, and heads of reward, the interview protocol comprised four questions. In the interview request sent to potential respondents, the researcher stated that she was interested in remuneration design and governance in the UK. Without exception, the first interview question posed to respondents was ‘what do you do?’

The second category of interviews, which entailed a further 54 individuals, included interviews with 36 remuneration consultants, 4 remuneration committee chairs/members, 2 executive directors, 1 board chairman, 4 heads of reward or HR directors, 4 corporate governance analysts, 2 think tank directors, and 1 politician.

Table 2.2 Summary of Consultant Interviews

Consultant Interviews	Former Managing Partner	Managing / Lead Partner	Partner/ Principal	Associate	Analyst	TOTAL
Big 4	3	2	1	5	4	15
Actuarial/ HR Psfs	1	3	5	5	6	20
Boutique		1	3	2	1	7
Sole Practitioner		2				2
TOTAL	**4**	**8**	**9**	**12**	**11**	**44**

Table 2.3 Summary of Non-consultant interviews

RemCos	Executive Directors	Chairman	HoR/HRD	Governance[32]	TOTAL
4	2	1	4	7	**18**

[32] This total includes governance analysts, think tank directors and the politician.

Table 2.4 Category I vs. Category II Interviews

Category I (Biographical)	Category II (Semi-Structured)	TOTAL Interviews
8	54	**62**

Thus, across the two categories, a total of 62 interviews were conducted for this study. Three remuneration consultants were interviewed a further 1-2 times following their initial interview. These respondents, in particular, could be described as informants (Spradley, 1980). They also served as 'soundboards' for the conceptual and theoretical linkages made with the interview data analysis.

The 'Interview Log' detailed the interviewees' name, contact details, date/medium of initial contact (and second or third contact, if applicable) and the interview date, location and duration.

Interviews Transcripts

Of the 62 interviews, 58 were recorded and transcribed. In the other instances, the respondents either declined being recorded or in one instance, the Dictaphone malfunctioned. The shortest interview was 20 minutes[33] and the longest was just over 2 hours. The majority of the interviews were between 30-45 minutes in length, and there are over 500 pages of transcribed interview data.

The first interview was conducted on 18 March 2014, and the most recent interview was conducted on 29 August 2017. The bulk of the interviews were conducted from January to June 2016.

[33] This was an isolated incident. All other interviews exceeded 30 minutes in length

2.4 Thematic analysis

The transcripts and fieldnotes were not read as 'accounts' of what happened 'out there', but 'as an interpretation which is jointly produced by interviewer and respondent' (Briggs, 1986, p. 3). The researcher continuously reflected on her role in the field and the interview, and later her role in the interpretation and analysis of the data. The analysis of data commenced once the data collection was substantially completed, and largely occurred in July and August of 2016, and was conducted in stages.[34]

Stage 1: The (i) interview transcripts and (ii) fieldnotes were read 'top to bottom', without any highlighting or codes applied. The 'quick read' of the transcripts was meant to give a sense of the corpus to data derived from the interviews and fieldwork. Reading quickly and across the breadth of material also gave the researcher a sense of the overarching themes. These themes were jotted down. The suggestion was then made for the researcher to also consider and note themes that she expected or anticipated finding in the data.

Stage 2: The interview transcripts were read for the second time. This entailed a slow and careful reading of each transcript. In this reading, interesting phrases were highlighted, and comment boxes created adjacent to the phrase. The comments summarised and reduced the highlighted phrase to an empirical code. The highlighting, summarising and coding was conducted on pdf-versions of the transcripts[35] and fieldnotes.

Stage 3: In the third (and often final) reading of a transcript, the analytical codes were derived by connecting the empirical codes to broader themes in academic and practitioner discourse. There was no a priori theory from which the research questions were derived. The data coding adhered to an inductive approach. The following table is one excerpt of how transcripts were distilled into codes:

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[34] The data analysis process was critically shaped by Professor Matthew Hall

[35] The transcripts were also uploaded to NVivo. In spite of the many features offered by the software, it was ultimately abandoned. The process of distilling the key themes relied on repeated cycles of reading and reflexivity.

Table 2.3 Inductive Coding

Quote	I know that if you hang your hat on pay for performance when all the drivers within the company then say well we're all top performers that means we all get top pay. You've actually just shot yourself in the foot. (Sole practitioner)	In order to sell those changes in pay levels, rather than saying it was just the reality of market forces, we created this story that it was around performance. Investors in particular required those additional amounts of pay, only to be for the achievement of [quite 00:12:44] stretching performance conditions. (Managing partner, Big4)	For a period of time, it was in everybody's interest to believe that this was true, that it was genuinely an increase in performance related pay, that was driving increased pay [content 00:12:57]. The problem is, as a result of that, we ended up with levels of variable pay that were unrealistically high, and implied a level of volatility that most executives would not accept. We've ended up with variable pay that isn't very variable as a result. (Managing partner, Big4)
Code	(i) Role of pay for performance (pfp) in the upward movement of pay.	(i) Using pfp to justify high pay (ii) stretch targets contribute to higher pay levels	(i) role of variable pay in upward movement of pay

2.4.1 Reflexivity, Writing and Theorising

Theoretical points of connection emerged in the latest stages of the study, and were importantly enabled by the process of constructing the narratives in each chapter. The process of establishing linkages between the empirical material and theory, as well as identifying anomalies and inconsistencies relied on the researcher's reflexivity. The term 'reflexivity' has been a source of some contention within the social sciences. As Latour (2005), quips:

> 'Reflexivity is not a birthright you transport with you just because you are at the LSE! You and your informants have different concerns—when they intersect it's a miracle. And miracles, in case you don't know, are rare' (p.151)

Reflexivity is not a process of revealing a true account to be packaged and re-presented to the informants. Latour (2005) is reminding researchers that they have their own agendas, and must remain mindful of this. The researcher's reflexivity is meant to achieve a depth of interpretation and analysis not possible otherwise. As Alvesson (2003) helpfully states:

> 'Reflexivity operates within a framework that stimulates an interplay between producing interpretations and challenging them. It includes opening up the phenomena through exploring more than one set of meanings and acknowledging ambiguity in the phenomena and the line(s) of inquiry favoured, and it means bridging the gap between epistemological concerns and method' (p.14)

The researcher most acutely experienced reflexivity during the late stage date analysis and write-up. Researchers have their strengths and their weaknesses. Amassing data – whether painstakingly or not – was a key strength of the researcher. Interpreting and analysing the data, initially weak, strengthened over the duration of the study. Theorising from the data, however, proved profoundly challenging.

Scholars, in different ways, have spoken of the iterative process involved in data analysis, writing and theory development. Whether it is 'tacking back and forth between the study participant and academic worlds' (Van Maanen, 1988, p. 138), or 'moving from the general to the local to the general' (Baxter & Chua, 1998, p. 80), 'problem, theory and data influence each other throughout the research process' (Ahrens and Chapman, 2006, p. 837). Davide Nicolini's (2009) notion of 'zooming in and out' is another take on the idea of 'tacking back and forth between' (Van Maanen, 1988, p. 138) empirical accounts and theory, and one which proved useful in making sense of how the researcher theorised from her data. As Nicolini (2009) states:

> By using empirical methods such as shadowing and historical analysis, and by employing notions such as that of translation and practice networks, we can

> extend our articulative and practice-based investigation well beyond the accomplishment of practice and into the realm of the translocal and durable. Practice becomes in this way a convenient and usable ontological unit for making sense of a variety of organizational phenomena, from the existence of local forms of co-ordination to complex organizational arrangements such as large corporations, multinational firms and other highly institutionalized forms such as markets (Knorr-Cetina 2004) - all without having to forfeit the idea that 'it is practices all the way down' (p. 1411).

In this study, the researcher never extracted herself from academic readings. However, the academic readings at times were overwhelming as the different dimensions of the study connected with different discourses. Yet, there was a mindfulness that an empirical account that remains untethered to a broader discourse is of limited value to scholars. Nicolini (2009) reminds researchers that empirical accounts must have 'something' to offer the academic discourse. This 'something' is 'the conceptual product of research' (Klag and Langley, 2013, p.150). As Klag and Langley (2013) state:

> 'Making a conceptual leap involves bridging the gap between empirical data and theory: moving from the mass of words and other data (the world of the field), through and beyond the mechanics of analysis to an abstract and explicit set of concepts, relations and explanations that have meaning and relevance beyond the specific context of their development (the world of ideas)' (p. 150)

The lesson, for which no academic paper or methods course can adequately prepare one, is the duration and frustrated intensity of the period, which precedes the conceptual insight that ultimately leaps beyond the data. The period in anticipation and preparation for conceptual leaping, differed across the chapters.

Chapter 3, for example, was re-worked (or re-written) five times. In fact, Chapter 3 and 4, in an earlier iteration, was one narrative account, seeking to present a synthesized history of remuneration consultants from the early 1970s to 2015. However, as a single narrative account, it was untenable. It was only in creating two accounts instead of one that the tension was relieved; the emergence of consulting work needed to precede the co-emergence of the committee and consultant. For Chapters 3 and 4, the challenge in constructing the historical narratives were two fold; managing voluminous archival data sources through copious timeline diagrams, while overlaying the biographical interview data onto those timelines.

In Chapter 5, the notebooks were essential in constructing the narrative. However, the decision to include Notebook 3 as a column alongside Notebook 2 proved to be problematic in the latter stages of analysis as the insights from the informants at times sat too closely to the insights from the researcher, thereby impacting the clear articulation of the field experience vis a vis the researcher's interpretation of the field experience. This is more so a lesson for the researcher in writing up the field-based account rather than a lesson in delineating the voice of the informant versus the voice of the researcher.

Chapter 6 - more so than any other chapter - was constructed on the 'set of sensibilities' described in Chapter 1. The accepted notion that the market for executive talent and the pay benchmark existed as objective facts, as well as the implication that consultants were involved in the upward ratchet of pay constituted the dominant discourse. Yet, the data and data interpretation linked to these concerns contested these unquestioned and taken for granted 'facts'. Challenging existing theory proved to be the researcher's greatest obstacle, yet once overcome, the contributions made toward theorising pay benchmarking practice presented the greatest reward in the academic training of the researcher.

How was this obstacle overcome? As a function of the study's data collection and analysis, (i) the genealogy of executive pay surveys, (ii) the field notes on pay benchmarking practice, and (iii) the archival account on the role of regulation in 'shaping' the market for executive pay, all now existed. To leap, these three seemingly distinct yet related accounts had to be linked. And in so doing, the ability to theorise from the interconnected written account was made possible. It took gut and gumption. The chapters that follow exhibit a similar pattern – empirical account and then conceptual leap. In the future, these leaps will be made a little more boldly, and hopefully a little faster.

Chapter 3
The Emergence of Executive Remuneration Consulting

3.0 Introduction

> "You've got the strategy consultant knocking on the door of the CEO and the CEO is not answering. The Rem consultant is going up the back stairs straight into the boardroom."[36]

In 1987, the term 'remuneration consultant' appeared in the Financial Times for the first time. In the thirty years that ensued, remuneration consultants became central actors in the design and governance of executive remuneration in FTSE 350 companies. This chapter studies how the 'Rem consultant' attained relevance in executive pay design from the 1980s, and relevance in pay governance from the early 2000s. Tracing the emergence of executive remuneration consulting means elucidating the 'multiple conditions and sources of beginning' (Power, 2015) and the 'contingent turns of history' (Foucault, 1971) which shaped remuneration consulting work and the actors engaged in it. In so doing, the chapter sheds light on the social, economic and political pre-conditions critical to the formation and stabilisation of this new occupational grouping.

Taking a genealogical approach, this chapter problematizes the linear, evolutionary and 'rationally inevitable trends' (Foucault, 1971) often assumed to unfurl in the emergence of a new occupational field. Where related fields of management consulting and human resource management sought the classic hallmarks of a profession – accreditation, degree programmes, self-regulatory bodies - remuneration consultants did not pursue a 'professionalisation project' (Larson, 1977), or abstract their knowledge (Abbott, 1988) to prevent 'commodification or colonization' of their work (Suddaby and Greenwood, 2001). Rather than taking these seemingly natural steps in securing market closure and social prominence, executive remuneration consulting work was predominantly built upon a market logic. The field emerged from the divisions of established and accredited professionals claiming competence in new work domains, and namely executive pay advice. In 2002, the state introduced regulation for executive pay

[36] Interview with Principal, Professional Service Firm

disclosure and governance, the nascent field of remuneration consulting opportunistically absorbed governance related work tasks, by appealing to a 'gatekeeping' logic (Coffee, 2006). This gatekeeping logic initially complements their dominant market logic, while inadvertently setting the stage for the later allegations of the consultants' role in the upward ratchet of executive pay.

Executive remuneration consulting is also an interesting setting in which to study the formation and stabilisation of a new occupation, as it occurs within the 'walls' of professional service firms. Researchers are increasingly interested in how practices begin, and how new occupational groupings formalise within the psf setting (Hinings et al., 2015). The chapter presents insights into the strategies employed by competing psfs as they sought to gain a foothold in new spheres of work. Perhaps more interestingly is the finding that the leading remuneration consultancies appear remarkably similar – both structurally and culturally - despite their emergence occurring in varying psf settings, suggesting the homogeneity in norms, structures, and practices across psfs.

The chapter is organised as follows. Section 3.1 describes the period before executive remuneration consulting existed as an occupational field, and the important efforts by Towers Perrin to provide pay data to British companies. Section 3.2 describes key Thatcher's economic and public policies, which triggered the proliferation of executive stock options and revolutionised executive pay in Britain. Section 3.3 details the formation of remuneration advisory practice within and alongside professional service firms. Section 3.4 establishes links between the Cadbury Report and the rise of remuneration governance. Section 3.5 describes the emergent occupation, detailing the stabilisation of remuneration consulting work within psf settings. Section 3.6 examines the socio-economic climate, which triggered social anxiety on the issue of executive pay, prompting the convening of the Greenbury Study Group. Section 3.7 details the political and economic pre-conditions which influenced the introduction of statutory regulation. Section 3.8 describes the corporate governance work for which the consultants made themselves relevant. And Section 3.9 analyses the multiple logics, which shape remuneration consulting work.

3.1 Remuneration advice in the 1970s

> 'We'd had vast amounts of pay controls in the 1950s, 1960s, 1970s… Basically, executive pay, as a separate thing, didn't really exist at all.'[37]

Wright is describing an era in which executive pay advice did not exist as a standalone service or niche practice. While remuneration advice indeed existed, it was not yet the tripartite of base salary, short term incentive and long term incentive that would later become commonplace.

Importantly limiting the diversity in executive remuneration packages was Britain's tax regime; then considered to be one of the most punitive in the world. From 1960 to 1979, successive governments maintained income policies as a means of managing the economy (Williamson, 2004), imposing limits on the rate of wage increases throughout the workforce. The stagnant pay levels and a top rate of income tax at 83% meant that 'all sorts of benefits were agreed'[38] as cash incentives were seen to be prohibitively expensive. The most common benefit for executives was the company car. Other perquisites included gold bars, fine wine, platinum sponge, and access to luxury properties. Remuneration advice for the executives of British companies was principally concerned with reducing the tax burden: 'It's slightly shameful that we were giving advice on fundamentally how to get around pay controls'[39] This was particularly the case for the executives of British companies, and was not seen to be the most desirable advisory work for those offering remuneration advice:

> 'The very interesting thing, in a sense, about remuneration consulting in those days, is that the big pay, the interesting, exciting pay was among American companies, because if you go to the late 70's, big British companies, ICI[40], Shell, BP… they didn't pay bonuses, they didn't have long term incentives. They were losing executives to American companies, which not only paid better base salaries, but actually paid in different forms.'[41]

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[37] Interview with Vicky Wright, former President of the CIPD and former Worldwide Head of Hay's Reward Consulting

[38] Ibid

[39] Interview with former Partner at what is now Willis Towers Watson (formerly Towers Perrin, then Towers Watson)

[40] Imperial Chemical Industries was the largest UK manufacturer & exporter in the 1970s.

[41] Interview with former partner

The pay packages offered to executives in the US and for subsidiaries of US firms were seen to be interesting because stock options and bonus schemes were already commonplace. Consultants at Towers Perrin [42] and Hay Associates were acquainted with the three prong pay packages on offer to American executives. Establishing UK offices enabled these American consultancies to serve their US clients with European subsidiaries. In spite of the seemingly limited scope of pay advice beyond their US client base, there was a strong desire by Towers' actuarial, benefits, communications and direct pay[43] (ABCD) business to provide services to large, reputable British companies. This would come in the form of pay survey data services.

3.1.1 Towers' first mover advantage

Executive pay surveys[44] were not pervasive practice in Britain in the 1970s. While the British Management Institute (BMI) archives list records of remuneration surveys as early as 1961, Britain's largest companies relied upon a pay club known as the Chairman's Group[45] to discuss and swap information on the pay package of senior executives. The Chairman's Group comprised around 20 chairmen from Britain's largest listed companies, and pay information was often swapped on a 'rather ad hoc basis' and for specific cases. It was described as operating with 'no notes, or very few notes.'[46][47] This ad hoc swap presented an opportunity for Towers to offer British Chairmen a more systematic approach to the collection and circulation of (anonymised) pay data. However, Towers first

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[42] According to Crystal (1991), executive compensation consulting, as an organized profession, did not get started in any meaningful way in the United States until the 1950s. This rise was linked to two occurrences; the introduction of executive compensation surveys, first introduced by McKinsey Director Arch Patton in the late 1950s. Second, Crystal (1991) noted that the practice grew steadily due to the popularization of stock options in the 1950s and a strong stock market. This is discussed further in Chapter 6.

[43] Base pay, annual bonus, long term incentive

[44] The first executive pay survey was designed by consulting firm McKinsey Director Arch Patton in the 1950s.

[45] Young and Scott (2004) described the Chairman's Group as "shadowy' and 'a sort of pay club for the great and good, which enabled the chairpersons of selected large companies to meet and discreetly and compare detailed notes on each other's compensation arrangements.

[46] Although initial meetings were amongst Chairmen, it was later delegated to company secretaries.

[47] Interview with former managing partner

had to establish a reputation in the UK with regard to pay surveys. And they did so by managing the surveys for American companies with European subsidiaries. These early surveys tended to be industry specific. One of the first industry specific surveys focused on the hi-tech sector, and for which Towers managed the database from the 1970s to the 1980s. A second survey, which was critical in establishing Towers' reputation in the UK, was the Parker Pen Compensation Survey. The survey was managed and analysed by Towers Perrin, and importantly promoted by the head of HR at Parker Pen. The compensation data in this survey included around 70 American companies, including the likes of Kodak and IBM, which were pre-eminent organizations during this time. Although Towers growth and data services were 'very, very oriented to US subsidiaries,' the influx of US banks into Europe spurred Towers' UK client base.

Few US banks had European branches in the 1960s; however, the 1970s witnessed the rapid growth in foreign operations for US banks of all sizes[48] (Federal Reserve Bulletin, 1999). Like Towers' other US clients, the banks had the same need for data, and 'through good luck, and good fortune'; Towers also penetrated this market, growing their databases to incorporate banking sector data. More critically, the increased presence of the banks and subsidiaries had implications for the demand of highly skilled labour. As British companies started losing senior executives to American companies 'that not only paid better salaries, but actually paid in different forms,' there was growing interest amongst UK executives in accessing competitive pay information. With Towers' reputation as the market leader in compensation surveys, they were the first 'port of call' when British companies turned their attention to the increasing retention risk posed by American companies.

Towers Perrin' first break in providing pay surveys to British companies came in the late 1970s, when then Group Personnel Director of Cadbury Schweppes, Major Frank Hamer commissioned the firm to conduct a survey of executive director pay in other factory companies. While the first survey comprised only six anonymised companies, they were some of the biggest companies in Britain.

[48] Most of these banks were later absorbed or 'went belly up'

Towers Perrin conducted the survey again the following year, increasing their participation twofold. It was this survey that became Tower's 'Top Executive Pay Survey' – the market leader in executive pay data - comprising 80 of the top 100 UK companies within a few years of its establishment.

Yet, executive pay remained fairly undiversified throughout the 1970s. As Tower's former managing partner remembered of their 1979 market trends analysis, 'nobody had share options' in the Towers' database, and 'only 10% actually had annual bonuses.' The firm's pay advice centred on tax efficient remuneration for executives, facilitating pay surveys, and producing market trends analyses based on the survey data. The firm 'really got into executive compensation consulting in Britain by providing competitive information'[49]. This fundamentally changed with the coming to power of Margaret Thatcher, the subsequent reduction in top earners' tax rates and the introduction of executive stock options. The following section describes the changes income and tax policies, which transformed executive pay.

3.2 The birth of 'executive pay' in Britain

3.2.1 Share scheme legislation

The first profit sharing schemes introduced in the UK were at the behest of the Liberal party in 1977. Liberal party leader, David Steel, put forth the idea of legislating profit sharing schemes during the renegotiation of the Lib-Lab Pact[50]. The eventual *All Employee Profit Sharing Schemes* (1978) focused on launching employee share ownership in private sector businesses. Prior to the change in legislation, profit sharing schemes, whether settled in cash or shares, attracted the recipient's highest marginal tax rate. The 1978 legislation sought to make profit

[49] Interview with former managing partner

[50] Following their 1974 defeat in the by-elections, the Labour government was left with no overall majority, and facing a vote of no confidence, Prime Minister Callaghan acquiesced to a bi-party agreement with the Liberal Party. The Lib-Lab Pact ran from March 1977 to September 1978.

sharing in shares more attractive[51], and was built on the premise that employees should be made to feel like part owners in the companies in which they were employed. This scheme was the bedrock upon which the Conservative government later added profit-related pay policies. Law and accounting firms were in a strong position to respond to the change in legislation; their tax professionals in particular well poised to supply advice to companies interested in establishing share schemes.

3.2.2 Thatcher's Enterprise Culture

Following the labour government's defeat in the 1979 general election, Margaret Thatcher and her conservative government came to power. Almost immediately, Thatcher set in motion agendas, which wrought significant cultural change in Britain. In the first budget after the election, Chancellor Sir Geoffrey Howe cut the top rate of income tax from 83 per cent to 60 per cent on earned income and the basic rate from 33 per cent to 30 per cent. The government also suspended pay controls in favour of interest rate manipulations and monetary policy.

In order to improve labour productivity and to encourage the 'rise of the entrepreneurial self', the government went about re-imagining the association between labour, performance, and profit. The 'entrepreneurial self' is a key pillar of Thatcher's enterprise culture. In the 1980s, governmental policies sought to shift the state and labour away from the Keynesian welfare model and a 'culture of dependency' to the entrepreneurial self which embodied 'self-reliance' (Peters, 2001). In the government's 'rethink' of British labour, the emphasis was shifted from relatively inflexible salary structures to the use of performance-related reward systems (Armstrong and Murlis, 1988). Thus, the government introduced wider share ownership for employees, profit related pay and performance related pay via schemes introduced in the Finance Acts. As Smith (1993) noted, 'the conservative government has worked at placing micro-level decisions about remuneration and macro-level aspirations and intentions for improved national economic performance within the same political web' (p. 2).

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[51] The 1978 Act made income tax concessions for employees participating in schemes approved by the Board of Inland Revenue (Breakwell, 1983).

The introduction of the Savings Related Share Option Scheme in 1980, for example, encouraged employee share ownership and triggered companies to reform pay, benefit and share structures. The 1980 to 1982 recession similarly prompted companies to review pay systems, but more so in response to large layoffs triggered by the recession. Thus, the enterprise culture was first and foremost a workforce wide, nationwide shift, of which executive incentive systems was one facet.

It was the 1984 Finance Act, which revolutionised executive pay. The Act allowed executives to hold options with a face value of up to four-times emoluments, and have any consequent gains on exercise taxed at the capital gains rate of 30%, as opposed to personal income tax rate of 60%. Executive stock option schemes essentially 'offered tax savings of 30%' (Director, 1995, p.66).

Apart from the incredible and immediate tax benefits for executives, the tone around pay was shifting. The TUC had called increased wages and lower taxes. The Institute of Directors' Director General made a statement in 1984 with regard to pay:

> 'The solution to the problem of the low paid is not Wage Councils and statutory minimum wage levels. And it is certainly not centralised bargaining. The levels of pay much be decided in the marketplace – they should be linked to increased productivity and not artificially distorted by outside manipulation.'

The sentiment that the market should be taking responsibility for rewarding productivity was gaining traction on many fronts. The power of incentives, which was already firmly established in the United States, was taking root in Britain for a host of reasons:

> 'There was a genuine belief in the value of incentive contracts, alignment with shareholder interests and 'the naïve notion that share options don't cost anything.'[52]

The corporate response to the Finance Acts was immense, illustrated in the growth in the number of share schemes between 1986 and 1989:

[52] Interview with Former managing partner

Table 3.1: Share scheme growth (1986-1989)

Type of Schemes	1986	1989
All Employee Profit Sharing Schemes (1978)	622	853
Savings Related Share Option Scheme (1980)	611	838
Discretionary (Executive) Options Scheme (1984)	2080	4069

Source: Institute for Public Policy, Economic Study No.3, 1990

Companies 'piled on (executive) share options'.[53] The IoD's 'Director' publication quoted a Hewitt Associates consultant as stating that 'companies typically used the ceiling as the upper level for directors, with multiples of two or three times salary for those just below board level and one times salary for divisional managers' (Director, 1995, p.66). The 'gold rush' in stock option use was partly because some were 'fearful' that the tax benefits would not last long[54]; which was linked to the belief that Thatcher would only last one term.

The upsurge was also prompted by a concern that the types of managers of state-owned enterprises lacked the right mind-set to succeed in the private sector. State-owned enterprises, such as BT and the utilities, 'were unionised, right the way up to senior management'[55], and steps had to be taken to get these newly minted executives 'thinking in business terms and to get the senior management group acting like managers and leaders.'[56] Incentive schemes were seen to align managers with stock performance, thereby overriding the union mind-set.[57]

Third, there was also a growing preoccupation with attracting and retaining talent from the global talent market. The deregulation of London's financial markets led to the 'frantic efforts of financial institutions to attract and lock in talent' (Saffin,

[53] Interview with Former managing partner
[54] Prior to 1984, companies could award discretionary executive share options, but these plans had to be approved by shareholders.
[55] Interview with Vicky Wright
[56] Ibid.
[57] The issuing of stock options in advance of and subsequent to the initial public offering of state enterprises would later prove controversial as 'mediocre middle managers' were seen to benefit from windfall gains.

2004) as the City sought to establish itself as a global financial centre. The financial sector, mimicking practice in the US market, firmly believed the talent could be attracted and retained by getting pay packages ‘right’ for executives and City bankers. The pay comparison between British firms and American firms domiciled in Britain bolstered the rationale for increasing pay packages. The ‘Director’ also published research in 1984 detailing statistics that British directors were underpaid vis-a-vis their European counterparts with the exception of Spain and Portugal. Seemingly absent from this period was any opposition to the ideals espoused in introducing stock options as a means of reward. Institutional investor representative bodies (notably the ABI) were concerned with ‘the prospect of equity dilution through over-zealous use’ (Main, 2006), but overall agreed that options would serve in aligning executive and shareholder interests.

3.2.3 ‘Now Cash is Clean Again’[58]

By the late 1980s, stock options were institutionalised across large public companies, and the financial press had taken an interest in the topic of executive pay. The Financial Times stated that 63 per cent of large UK companies had incentive schemes by 1987, compared to 24 per cent in 1981[59]. Consultants also reported to the Financial Times that the average payment in executive incentive schemes had risen to 25 per cent of base salary, up from 11 per cent for the same period (Skapinker, 1987). The press also sought to capture sentiment surrounding executive pay, quoting a consultant’s statement that “when it comes to rewarding senior management, cash is now clean" (Skapinker, 1987). The sea change in remuneration observed in the private sector was also observed into public sector pay. The Top Salaries Review Body’s Chairman, Lord Plowden stated in 1985, 'we are left in no doubt that, in the present climate, pay and morale are inextricably linked'.

Executive pay had risen to cultural and social significance for the British workforce and the public at large. With these shifts, the first pockets of disquiet

[58] Title of Financial Times article, published January 20, 1987

[59] Piggy backing on the media attention, some advisors actively sought to promote their market knowledge. This 1987 article drew on data provided by Hay Management Consultants.

began to surface. Government resistance to workforce-wide wage increases contrasted with the millions of pounds being realised via top executive option schemes. As one Hay Management Consultant stated at a London conference, 1987 may be remembered “as the year that finally killed off the myth that the UK is one labour market.” Criticism of Sir Ralph Halpern’s pay package (Chairman of the Burton Group) captured growing concerns. In 1987, the Financial Times provocatively stated:

> “(A)ren’t annual payments of 1 m pds a little excessive?”
>
> “Aren't institutional shareholders and the public at large inevitably going to assume that schemes …are motivated by little more than managerial greed?”

Halpern held the title of Britain’s highest paid executive and he fiercely defended performance related pay, which he believed helped to create a culture of enterprise and was, therefore, crucial to the success of the British economy (Skapinker, 1987). In further defence of directors pay, research by the IoD and Reward Regional Surveys argued that spectacular pay packages were reserved for a few celebrated cases, and that the overall increase for British directors was much more modest. However, fractures in performance related pay was increasingly vocalised in the public domain by Labour politicians. The disquiet surrounding high pay gained further momentum in 1989 when Lord King, Chairman of British Airways received a 116% pay increase. Thatcher herself was reported as being “appalled” at the salary increases for Britain’s top businessmen (Saffin, 2004).

By October 1987, the Financial Times noted ‘the huge transformation, which has occurred in the pattern of UK remuneration over the past few years. Employers had to find their way around such concepts as performance- and profit-related pay, cash bonuses and a range of share option schemes,’ for which there has been ‘no shortage of consultants willing to help them’ (Skapinker, 1987).

Prior to their coverage in the press, pension and benefits and remuneration advisers attracted almost no attention. The term ‘remuneration adviser’ did not appear in leading British newspapers before 1987 [60]. Yet, as directors' remuneration gained increased attention from politicians and investors, those advising on remuneration emerged as an object of interest.

The Financial Times identified the prominent players in the supply of remuneration advice as Hay Associates, Towers, Perrin, Forster and Crosby (Towers Perrin), and Inbucon. In addition to the traditional practitioners, there were now many more players in the field. This included one-person operations, catering to a specific industry (Skapinker, 1987). The Financial Press placed disproportionate emphasis on consultancies that actively provided journalists with sound bites of data to populate press articles. The field of remuneration advice was concurrently undergoing remarkable change in the 1980s in the UK, of which the media captured little to none. Drawing on interviews with former leading partners providing advice during the 1980s, the following section describes the rise of remuneration advisory services within specific firm settings. As described in Chapter 2, the interviews were biographical in nature and spanned the career of the consultants interviewed.

3.3 Practice formation

The formation and formalisation of executive pay advisory practices was occurring in a few key ways. For Towers Perrin, executive pay advice occurred on the back of their executive pay surveys. As Tower's former managing partner recollected:

> 'There was this fascination with the three[61] prong executive pay. British companies wanted to know more about what other big rich companies were doing. We capitalized on that through developing these survey databases. It just really grew from there.'

For the big accounting and law firms in Britain, executive pay advice was an outcropping from three different points of origination. The large accounting firms

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[60] A search for 'remuneration consultant' was conducted across title and content within the leading newspapers publications, which included the Guardian, Financial Times, The Economist, Sunday Times , Telegraph

[61] Base salary, short term (annual bonus) and long term (stock options)

were already well established as professional service firms by the 1980s, with specialisms in legal and tax advice and 'operating in the margins of the management consulting field from the outset, providing 'advice' on administrative and financial matters as an occasional and ad hoc service (McDougald and Greenwood, 2012). As one of the more established psfs, Coopers and Lybrand had a management consulting practice and general HR consulting practice. However this was not the space from which executive remuneration advice grew.

3.3.1 Accounting firms

In the early 1980s, Coopers and Lybrand launched their Compensation Benefits and Incentives group within the tax practice. The team mainly comprised non-practising barristers and accountants working on the implementation of share option schemes; work which mainly focused on legal and accounting issues. The various statutory changes and Finance Acts (notably in 1978, 1980, 1984 and 1987) gave rise to large swaths of work in relation to profit related pay schemes and employee share schemes. Similarly, Arthur Andersen recognised new work opportunities from the government's favourable tax changes for employee share ownership. As one partner recalled, Andersen 'developed a whole practice, about helping companies to persuade their employees, to make part of their pay variable instead of fixed, so that they could benefit from tax advantages.'[62]

In addition to the growth in share schemes, the multi-faceted work required for the privatisations of state-owned enterprises also presented new work opportunities for the accounting firms. Coopers and Lybrand gained prominence for their work in the privatisation of British Telecommunications (BT). As noted earlier, incentivising executive directors was an important concern during the privatisation. Vicky Wright recalled the need for 'hard edge' human resources skills to tackle the 'union mind-set' and create incentive structures that were 'going to get them (the executives) to cut costs and everything else.' Wright stated:

[62] Interview with former Andersen partner

> A lot of accounting firms that were doing a lot of restructuring of all the telecommunications, electricity, and water, were all in the same game of how do we correct the senior management group. The way it was done was overwhelmingly whack them a bonus fee, it might not have been very much, and give them share options.

The stature of human resource management benefitted from the involvement of human resource professionals in the incentive design work for the newly privatised companies. However, for Coopers and Lybrand, there was a greater interest in developing share scheme implementation work, over incentive design work. The firm focused their attention toward increasing their market presence in share scheme implementation, which was more so an encroachment on the work domains of law firms than actuarial and benefit firms. As will be described in Section 3.4.3 below, the benefits firms maintained their focus on pay data and incentive design work.

3.3.2 Law firms

One of the few law firms, which actively engaged in remuneration advisory work during this period, was Clifford Turner[63]. Law firms were well placed to provide tax and share scheme implementation advice due to their legal knowledge; however, incentive design was not actively pursued. In 1984, Clifford Turner 'thought it would be quite nice to dip their toe in the water of a multi-disciplinary practice'[64] and established New Bridge Street. New Bridge Street, under the auspices of tax partner David Reed and partly qualified actuary Laurie Brennan, would house a practice that integrated share implementation work with all employee share scheme design work. New Bridge Street 'was not an exec comp(ensation) practice at all' recalled one of the firm's former partners. Rather it was doing employee buy-out[65] type work during the wave of government privatisations. Although the practice initially focused on all-employee share schemes, there was 'increasingly bits of executive stuff because people would say,

[63] Clifford Turner merged with Coward Chance in 1987, and was henceforth known as Clifford Chance
[64] Interview with former partner
[65] A proportion of the equity was made available on an all-employee basis

"well can you just advise us on this and what do you think of that"'.[66] For New Bridge Street, providing executive pay advice 'morphed over time', it was 'never a conscious decision'.[67]

3.3.3 'All about data'[68]

The accounting and law firms possessed the legal and tax knowledge necessary for employee and executive share scheme implementation work. Incentive design work, however, required pay data knowledge. And pay data knowledge required surveys, which had been monopolised by Towers Perrin, and data services houses such as Inbucon and Data Income Services. Directors' remuneration disclosure was insufficient for evaluating executive pay market trends and since Towers Perrin had a stranglehold on the market trends data and analysis, potential entrants in incentive design work would need to overcome the data barrier. Tower's former managing partner remembered the survey revenue as 'quite a small percentage of total fees', but importantly giving the firm access to clients, for whom they then proffered incentive design services. By 1987, the Financial Times reported that Towers Perrin had experienced 40% growth in its remuneration consulting practice in each of the three previous years (Skapinker, 1987). However, the tide was turning on executive pay sentiment. The 1990s represented a wave of corporate governance codes, including the Cadbury and Greenbury reports as well as institutional investor governance guidelines. These proved highly influential in shaping remuneration governance and remuneration consulting work.

3.4 Key shifts in pay governance

While the emergent field of remuneration governance is described in Chapter 4, it is important to note that it was the recommendations of the Cadbury Report (1992) which institutionalized remuneration committees as a feature of

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[66] Interview with former partner
[67] Interview with former managing partner
[68] In an Interview with the Lead partner of a consulting firm, he described this earlier era in remuneration advice as 'all about data' and the latter era as 'all about corporate governance'

boardrooms and pay oversight in British public companies. The Cadbury committee was concerned about the informational disadvantage of the non-executive directors populating remuneration committees. It was believed that the remuneration committee could access the external comparison data from the personnel department. Cadbury, hesitant to provide further guidance on remuneration, deferred to the 'Promotion of NEDs'[69] (hereafter, PRO NED).

PRO NED went on to describe the three main sources of industry pay comparisons as the consultants' survey, consultants' advice on an ad hoc basis, and salary clubs. It described salary clubs as existing in 'many industries to provide pooled information often against agreed disciplines of benchmark posts' (PRO NED, 1992). Companies in pay clubs exchanged detailed and confidential information regarding pay. It is not clear whether the responsibility for pooling the data was rotated amongst the members of the club, however, its data was meant to be anonymised.

Remuneration consulting work was given an important boost, for although it was still an emergent and fledgling field of practice, the PRO NED guidelines made reference to the consultants' survey and consultants' advice with a self-evidence that suggested a stable field of practice. Main (1993) describes how almost universally, remuneration consultants supplied survey data to personnel departments. The personnel department in turn supplied the information to the remuneration committee. However, it was still the case that the consultants' information was 'supplemented or even displaced by salary clubs'.

Remuneration consultants were also starting to appear in corporate boardrooms to explain their proposed remuneration packages. As Main (1993) stated, that 'in terms of bonus formulae, companies are generally guided by consultants, who may attend remuneration committee meetings in person to explain their proposals'. The relevance of remuneration consulting work was being realized at the highest echelons of British corporations. The professional service firms were

[69] PRO NED, an initiative first recommended in the 1970s, was established in the early 1980s and funded by the Bank Of England. Its remit was to source viable Non-executive directors, and compile a list, which corporate boards could refer to when appointing NEDs to their boards.

undoubtedly taking notice of this. Where accounting and legal psfs had previously specialized in the implementation of schemes, the professionals within these firms started envisioning an expansion of their work domains. The section, which follows, describes how accounting psfs – in particular Coopers and Lybrand - sought to capture new work domains, and the challenges with which they were faced in doing so. This section highlights that the economic and social dominance of the professions' label can be stymied by demands for technical know-how, which reinforces the claim that knowledge and expertise must be externally validated (Power, 1992).

3.5 Emergent occupation

> 'By the mid-1990s, remuneration consulting had, in the UK, become a specialist activity in its own right, and people were specialist remuneration consultants.'[70]

3.5.1 New Bridge Street

In the mid-1990s, under Carol Arrowsmith's leadership, New Bridge Street crafted a strategy focused on supplying executive remuneration advice to top British companies. Arrowsmith recalled that their strategy was achieved by investing in both people and resources. Yet, in spite of their marked success, Clifford Chance decided to redirect its efforts to establishing an international law firm rather than a multidisciplinary practice. In 1997, New Bridge Street was fully spun off from the law firm, marking the start of its operations as a boutique practice. During the ensuing decade, it grew to become the leading executive remuneration boutique practice, achieving its dominance by catering to FTSE 250 companies. New Bridge was particularly successful in serving the FTSE 250 companies as it 'was a relatively untapped market, partly because Towers wasn't interested in that market at the time'[71] and partly because a number of FTSE 250 companies hadn't yet hired remuneration committee advisers.

[70] Interview with principal
[71] Interview with partner

3.5.2 Coopers and Lybrand

In the early 1990s, Coopers and Lybrand were being approached by consultancies perceived as unable to fulfil the legal and accounting requirements for the implementation of share schemes:

> 'Around 1992, 1993, we realized that a lot of the work we were doing was the implementation of pay schemes for senior executives designed by other people, like Mercer, and Hay, and Towers….
>
> Well actually, we can do that (design work)…there's no reason why we have to just come in at the end. We could go up the value chain.'

Coopers and Lybrand's Human Resources Services (HRS) division was born out of the desire to vertically integrate and provide incentive design work. As Daly and Schuler (1998) have observed, accounting PSFs were seen to be entrepreneurial in nature and constantly able to re-invent themselves. Interestingly, because executive remuneration advisory work originally centred on the tax implications of legislative change, the HRS unit at Coopers and Lybrand was established within the Tax division, although tax implications had ceased to be the most critical concern in executive remuneration design. HRS became the umbrella under which the Compensation, Benefits and Incentives (pay consulting) group operated, enabling tax experts specialising in executive share plan implementation to work with human resource specialists competent in pay design. Although the accounting firms were labelling the new business lines as human resources, one partner recalled that the firms were not seen to have 'enough people to understand the HR.'[72] At Coopers and Lybrand, there were two people with HR backgrounds working in the management consulting practice who were pay specialist people, and 'more interested in (pay) policies and benchmarking.' These HR specialists were eventually brought in under the HRS umbrella so that the fledgling pay design team could draw upon the HR specialist knowledge as needed.

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[72] Interview with Vicky Wright

3.5.3 Still 'all about the data'

Both the HR specialists and the newly established pay consulting group faced a similar challenge. They 'had no direct source of data, and…didn't quite know what to do about that.'[73] Coopers and Lybrand didn't have the infrastructure required to collect data for large swathes of British industry. The compensation group was either conducting bespoke pay surveys for client companies, or purchasing data from the actuarial and benefits PSFs, namely Towers Perrin. It was well known that Towers held the monopoly on pay survey data for FTSE 100 companies. From Coopers and Lybrand's perspective, Towers 'didn't necessarily see us at the time as their competitors…they wouldn't necessarily have seen the big 4 accounting firms as competing. They saw us as coming in and doing work at the point that they'd sort of done their part, so initially, they were happy to sell us the data.' Yet, for the Coopers and Lybrand team, they 'agonised over this', partly because they 'were sort of aware it wasn't an entirely satisfactory situation.' They tried different strategies, including experimenting with collecting the data themselves from the annual reports.

The group eventually resolved their data issue by first collaborating with, and later acquiring, Monks Partnership; an executive and management pay data specialist. By the mid-1990s, the Coopers and Lybrand group had grown to around 25 people, four of whom were partners. The group was structurally the same as the rest of Coopers and Lybrand, with multiple layers comprising partners, senior managers, managers, supervisors and students. The hierarchy, however, was considered top heavy:

> 'For an accounting firm, that's not a great model, because the mantra in accounting firms is all about leverage, the bigger the base of the triangle, the more money, the more profit is made. We were encouraged to take on more junior staff to try to move away from what was a sort of diamond structure…to something that was more like a pyramid.'

This suggests that already well-established norms on optimal leverage and hierarchical structures could be transposed on to the remuneration consulting

[73] Interview with former partner, Coopers and Lybrand, PwC

team. The imposition of pre-existing hierarchical structures on nascent occupational groupings has also been observed in management consulting (Muzio et al., 2011). While these structures may appear 'natural' in the context of Coopers and Lybrand and therefore imposed on the many work domains which operated within the psf setting, it remains an empirical question as to how these structure shapes work and vice versa. The interaction between psf structures and the work tasks of consultants is not within the scope of this chapter. Chapter 5 examines the work tasks, which typically occur at the varying levels of the organisational hierarchy, and the implications for the social construction of expertise.

3.5.4 Coopers and Lybrand to PwC

In 1998, Coopers and Lybrand merged with Price Waterhouse to form Pricewaterhouse-Coopers (PwC). Price Waterhouse lawyers and accountants had been doing similar work to the Coopers and Lybrand team, albeit with a smaller team and 'about 5 or 6 years behind.'[74] Price Waterhouse was traditionally focused on audit and had only diversified into management consulting in the 1980s in the face of intense price competition in the audit market.[75] Following the merger, a former Coopers and Lybrand partner described their 'big group' as 'very multi-disciplinary' in composition. PwC was a recognized player in executive remuneration consulting at the end of the 1990s, even if they were not yet advising Britain's largest companies.

3.6 Expanding work domains

The prominence of remuneration consulting work was bolstered in response to the Cadbury Report, PRO NED and institutional investor guidelines. Their combined advocacy for remuneration committees to possess the appropriate information enabled a role for remuneration advice in the boardroom. The 'qualified' professionals who worked within the law and accounting psfs seized upon the

[74] Interview with former partner, Coopers and Lybrand, PwC
[75] This was gleaned from a review of PwC archives housed by Columbia University

broadening work of remuneration consulting, seeking to advance their prominence in incentive design work. This entailed rivaling the dominant consulting houses, and in particular Towers Perrin.[76] The law and accounting psfs sought to expand into 'consulting' work to complement their share scheme implementation work. Towers' competitors sought to diminish the data collection and analytics tasks by positioning themselves as consulting houses, stocked with professionals who were both well-suited and better-suited to the boardroom. As one partner recalled:

> 'Towers was better known as a data house, and less as a consulting house, and we plugged that gap…I don't know if that's objective or not, but that's certainly my perception of it.'

It's not that 'a gap' existed, but rather that Towers' competitors sought to create a chasm between data and consulting. Access to pay design work hinged on the databases and data analytics prowess of the consultancies. Nevertheless, accounting and law psfs could not shake the central and imperative role of data in remuneration consulting work. In spite of any efforts to make distinctions between data collection and incentive system design, the former was seen to enable the latter. Only consultants who 'knew the market' could reasonably design incentive systems. Thus, competing firms invested heavily in building in-house databases or acquiring data. It would be upon a foundation in data analytics that remuneration consultants would expand into additional work domains. These new domains were enabled by key shifts taking place in the field of pay governance.

While Cadbury and PRO NED took high-level positions on governance, the institutional investor representative groups operated in the details. Seeking to maximise the returns of their investments, these groups were organised around a pay-for-performance logic. Their guidelines importantly reflected this, as layer by layer, the institutions sought to bolster performance conditions for executive

[76] While the majority of the consultancies operated within the 'walls' of psfs, this did not preclude boutique firms from gaining a foothold in the market In 1994, Strategic Compensation Associate (SCA) Consulting was established, and in 1997, prominent data supplier Inbucon and sister firm Meis established a trading company (TBP2 Limited) under which their data analysis and advisory services could operate separately but collaboratively.

incentive systems. The added layers of detail brought with it added layers of complexity. The guidelines and the complexity associated with it fed into the specialism of remuneration consulting work, as consultants distilled the demands of the institutions in their design work. The following section presents an overview of the governance initiatives pursed by the institutions and the ways in which remuneration consultants reacted and absorbed these governance shifts into their work.

3.6.1 Institutional investors shape consulting work

Institutional investor representative bodies emerged as influential players during the 1980s; their emergence is addressed in greater detail in Chapter 4. The key players included the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF), which engaged in the formulation of remuneration guidelines on specific issues. From the early to mid-1990s, the ABI – sometimes jointly with the NAPF - released the governance guidelines:

Table 3.2: Key Steps in Executive Pay Governance: Early-Mid 1990s

Date:	Event:
Aug 1991	ABI: 'Second Addendum to Share Option and Profit Sharing Incentive Scheme Guidelines'
Dec 1992	Cadbury Committee Report
July 1993	Joint NAPF-ABI statement on Share Schemes
May 1994	ABI: 'LT Remuneration for Senior Executives'
Feb 1995	ABI: 'Share Option and Profit Sharing Incentive Schemes'

Source: Manifest

The upshot in option related 'windfall' gains during the privatisations, in particular, prompted institutional investor representative bodies to release numerous guidelines related to share schemes. These guidelines, importantly added layers of complexity to executive remuneration design. The ABI's 1991 guidelines, for example, recommended that companies establish performance conditions on share option vesting. Furthermore, they provided guidance on the appropriate measures. These appropriate measures were shaped by what institutional investors assessed as the best-in-class incentive practices. Thus, institutions and remuneration consultants created a feedback loop. The consultants created the frontiers of possibility by designing innovative incentive systems, which the institutions would then subsequently accept or reject.

In one example, consultants were popularising earnings per share growth hurdle as the preferred performance measure. It measured relative to the growth in the relative price index (RPI), therefore absorbing the institutions' preference for relative measures. The ABI in turn, included in their governance guidelines, citing it as best practice. As one partner recalled:

> 'When a company did something they (the ABI) didn't like, there was another bit that went into the guidelines that said, "You can't do that. And you can't do that thing we don't like and you can't do that thing we don't like." They built up layer by layer. Actually investors were very good at controlling some of the structural elements.'

Although the ABI and NAPF had a fairly stable and publicly communicated mandate, it was not always the case that consultants could predict the institutions opinions. As such, it was not unusual for companies using a particular incentive plan or performance criteria to suddenly fall into disfavour with the institutions. This is in part because, even among the institutional investor representative groups, there was divergence in opinion. When the ABI supported relative total shareholder return in the performance criteria of choice, the NAPF advocated EPS, which prompted one managing partner to comment:

> 'Standard Life hated relative TSR. Andy Banks who used to be at Legal and General hated earnings per share, which is why an awful lot of companies have got half and half. Both and everybody's equally unhappy.

Given the clout, which the institutions wielded, consultants were often subject to new guidelines that they might fundamentally disagree with. One of the more significant changes to the ABI guidelines was the recommendation that companies use relative total shareholder return as their performance measure for long term incentives. Around 1993, Reuters introduced, upon the advice of the Boston Consulting Group, relative total shareholder return as a performance measure for their performance share plans. The term 'relative' meant that the company’s performance would be contrasted to a group of comparator firms, rather than allowing the payment of the reward to be triggered solely on firm performance. As stock options had lost favour with the institutions, and performance share plans were gaining prominence, performance criteria were a central concern for institutional investors. It was argued that relative TSR, vis-a-vis absolute TSR, represented a levelling of the playing field as overall market movements and industry economics were removed from the evaluation of executive performance. As one principal at a boutique consultancy recalled of the ABI’S strong preference for performance share plans and relative total shareholder return:

> ‘They were the ones that caused a lot of problems. They're the ones - they would deny it now - who introduced relative total shareholder return’

The principal believed the institutions didn't understand that share options were fundamentally different from performance share plans. Rather, fund managers, drawing on the internal incentive structures used in fund management, erroneously applied relative performance to long-term incentive schemes. Others shared this view in the industry.

The ABI guidelines came to function as ‘law’ for boards and remuneration committees (Main, 1994, 1999, 2006). Through their continued governance guidelines, the ABI and NAPF ‘assumed a more far-ranging prominence’ (Main, 2006). In one example, Main (2006) noted, ABI guidelines with respect to executive stock options were ‘almost universally adopted, to the extent that it seemed to become a rule or an entitlement that all executives at board room level would be issued with options to the value of four times emoluments.’ Directors, especially those serving companies whose institutional shareholders included insurance and pension funds, were particularly sensitive to the governance guidelines put forth by the ABI and NAPF.

The consultants thus became a buffer between the institutional investor bodies and remuneration committees. The ABI in particular had become a force to be reckoned with. Although Main (2006) described the institutions’ influence as ‘dented’ by the Greenbury Report, it was arguably the case that Greenbury served to further entrench ABI and NAPF guidelines. As will be described in the following section, Greenbury centred on issues, which the institutions had been engaging with for several years. By the time Greenbury was convened, stock options were already in decline and performance share plans were on the rise. Greenbury was triggered to demonstrate political will in tackling ever-growing executive pay packages. The implications of the report, however, were far reaching. In the following section, the social and political climate surrounding Greenbury and the eventual recommendations are described, as well as the implications for remuneration consulting work.

3.7. Moral panic deepens: The Greenbury Report

In November 1994, British Gas union members brought a pig to the company's annual general meeting along with a feed bucket labelled 'the trough of privatisation.' It was a demonstration of their disgust with the pay packages being received by executives in the newly privatised utility companies and in protest of chief executive Cedric Brown's 75% pay rise. Arguably Cedric Brown was the straw that broke the camel's back, for executive stock options more broadly had become a symbol of the vast gulf between all-employee plan pay-outs and executive stock option vesting. In the two years prior – 1992 to 1993 – 1.3 million employees were granted shares or options worth a total £2.19 billion, which compared with 80,000 executives receiving shares or options worth £1.6 billion. These figured returned a staff benefit of £1,671 and an executive pay-out of £20,000. The public outcry triggered at the British Gas AGM and captured in several newspapers articles[77] spurred Prime Minister John Major to establish a special cabinet committee to examine shareholders' powers to control boardroom excesses (Saffin, 2004). Although the committee considered amendments to legislation, the government once again deferred to self-regulatory codes of governance.

[77] Newspaper article titles included: 'Derailing the Gravy Train,' 'Executive Gluttony under Attack,' and 'Fat Cats in the Dock'

In 1995, the Confederation of British Industry convened the Greenbury Study Group under the auspices of Sir Richard Greenbury (Chairman and CEO of Marks & Spencer).[78]

As noted earlier, stock options, with which Greenbury himself found particular issue, was already on 'its way out' by the time the Group was convened. The ABI and NAPF had released guidance in 1993 and 1994 on the issue of performance conditions for the exercise of executive stock options. Thus, by October 1994, New Bridge Street data found that 76 of the top 350 companies had already introduced alternatives to stock options. There was a sentiment amongst the consultants that Greenbury 'was solving a problem that had already waltzed through,' and furthermore was seeking to do so rather prescriptively. Greenbury himself sought to limit long term incentives schemes to only one plan, however, there were several amongst the Study Group who were in strong opposition. Ultimately, those in favour of a single LTIP were unable to advance its inclusion in the final report.

3.7.1 Greenbury's Recommendations

The Greenbury Report identified accountability, transparency and performance linkages as central to pay governance. As PRO NED had recommended in 1992, Greenbury similarly recommended that remuneration committees wholly consist of non-executive directors. These NEDs should have relevant experience and a 'good understanding, enhanced as necessary by appropriate training, or access to expert advice, of the areas of remuneration committee business.' Whether already occurring, or creating a new opportunity for work, this 'appropriate training' of NEDs was also assumed by the remuneration consultants.

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[78] The committee included Sir Michael Angus, Chairman of Whitbread PLC and the Boots Company PLC; Sir Denys Henderson, Chairman of Rank Organisation Plc; Sir David Rees, Chairman of GKN plc (nominated by the Stock Exchange); George Metcalfe, Chairman and CEO of UMECO plc; Sir David Simon, Chairman of The British Petroleum Company plc; Sir Iain Vallance, Chairman of British Telecommunications plc; Robert Walther, Group chief executive of Clerical Medical Investment Group (nominated by the ABI), and Geoff Lindey, Head of UK Institutional Investment J.P. Morgan Investment Management Inc. (nominated by the NAPF). The diversity and prominence of their backgrounds indicates that the Study Group was intended to be a collaborative effort across the industry's key players. However, by the publication of the report, there was evidence of a process fraught with tension.

The remuneration committee would report to the shareholders on behalf of the board, thus achieving transparency and accountability in pay determination. The report would form part of or be annexed to the annual report, and was to include 'full details of all elements in the remuneration package of each individual director by name, such as basic salary, benefits in kind, annual bonuses, and long term incentive schemes including share options' (Greenbury, 1995). Prior to Greenbury, disclosure requirements were based on the Companies Act 1985, which only required disclosure of the aggregate emoluments for all directors, and emoluments[79] disclosure for the Chairman and/or highest paid director (if the Chairman was not the highest paid).

The Study Group also acknowledged that remuneration committees were 'often influenced by consultant surveys or information exchanges with other companies.' In recognising that this left much scope for different interpretations and applications, the Group believed decisions on pay required 'knowledge and judgement.' In the references in which Greenbury makes of committee knowledge and judgement, it is tethered to the pay and market trends data seen to be coming from 'the market' for executive talent. This 'market for talent' is problematised in chapter 6. It is worth noting that the Greenbury Report assumed the market for talent to exist 'out there', and although the Group acknowledged that the market was imperfect, it was unquestioned.

The Group was more concerned with the effects of selecting 'skewed' comparator firms from this market. Thereby enabling an upward ratchet of executive pay. Yet, neither directors nor consultants are implicated in selecting 'skewed' comparators. This may seem surprising given that comparator firm selection largely sat within the consultant's remit. Also, compensation consultants had emerged as the object of concern in the US context in the early 1990s, in part due to an auto-ethnography by former Towers Perrin managing partner, Bud Crystal. In his account, Crystal described the 'capture' of consultants by rent extracting executives. In the UK setting, in contrast, remuneration consultants were held in

[79] The Cadbury Report recommended that salary and performance elements be disclosed separately.

high esteem, so much that Towers Perrin’s John Carney was invited to advise the Greenbury Study Group.

Ultimately, the Study Group strengthened the links between committee decisions and consultants’ knowledge. It also placed consultants more closely within the realm of governance-related work due to increased disclosure recommended by the Group. Third, the report ‘pushed remuneration committees harder towards other schemes’ (The Director, 1995). While options had not been explicitly banned, the report recommended longer-term, performance-based share arrangements, phased awards and some sort of shareholding handcuff (ibid). The frontiers for incentive design work expanded as a result.

Overall, remuneration consulting work thrived. The performance share plans which Greenbury’s intended to replace stock option schemes was work, which the consulting firms were already carrying out. As one partner recalled of the 1990s:

> ‘Then it was simpler, right? The three consulting firms[80] effectively just went around with their data…having conversations and trying to develop, design ... There was much more design work then… on the back of the data. That was a lot more fun. We didn't have long engagement letters. We didn't have huge contracts with the clients or anything like that. It was simpler.’[81]

The consultants during this period were benefitting immensely from advising an elite and prominent client, unencumbered by lengthy engagement contracts. Although concerned that his view sounded ‘like some old fogey looking through rose tinted glasses’[82], senior consultants remembered this period for the relative ease with which they secured incentive design work. Remuneration consulting practices flourished throughout the 1990s. The most critical episodes in pay governance had yet to emerge. The following section describes the pre-conditions that led to the statutory regulation of executive remuneration.

[80] The three consulting firms refer here to Towers Perrin, Hay and Mercer.
[81] Interview with former lead partner
[82] Interview with former lead partner

3.8 Proactive governance, reactive legislation

In 1997, the Labour party was elected to power. The British economy had returned to consecutive years of growth from 1992, and there was optimism for sustained economic stability. Britain's competitiveness was at the forefront of the government's agenda, alongside proving that the party could modernise its economic policy.

In 1999, the government capped[83] pay deals for public sector workers, and advised that other employees be similarly capped so as not to fuel a wage spiral (BBC, 1999). The wage caps for general workers cast attention to executive pay packages, which continued to rise, seemingly unchecked. Public policy interest gained momentum once more on the issue of 'fat cat' pay.

The Department of Trade and Industry (DTI) commissioned PwC to evaluate FTSE company compliance with the existing corporate governance codes. The government maintained that self-regulation was still preferred to state intervention and new laws would remain a last resort (BBC, 1999). The DTI's consultative document - published in July 1999 - centred on the shareholders' rights to accountability and transparency in executive pay decisions. The proposed mechanism by which remuneration committees could be held to account was an advisory non-binding vote on the remuneration report at the company's annual general meeting. Where Greenbury had recommended a voluntary vote, PwC found that less than 3% of the 270 firms sampled had put the remuneration report to a shareholder vote. In light of this, the DTI set their sights on introducing a mandatory advisory vote on the remuneration report. Institutional investor representative bodies, including the ABI and NAPF, were strong and vocal advocates for these enhanced shareholders powers.

In August 2002, the UK parliament brought into force new regulations requiring quoted companies to publish a Directors' Remuneration Report. In addition to remuneration related disclosures, the DRRR (2002) required that the report 'name any person who provided to the (remuneration) committee advice, or services, that materially assisted the committee' in determining pay policy and implementation.

[83] Pay was capped at the level of inflation.

During the DTI's consultative process and the Higgs committee's deliberations, remuneration consultants had emerged as an object of concern. Their independence was questioned within the lenses of a managerial capture hypothesis. The critics - whether politicians or institutions - believed that management-appointed consultants were subject to conflicts of interest and therefore the remuneration committee, relying on the consultant's advice, would be unable to fulfil their task objectively and independently. In response to the new regulation and the best practice guidance from Higgs, companies were faced with the decision as to how remuneration advisers could or should be appointed. One FTSE 100 Head of Reward during this period recalled:

> 'What they (FTSE 100 company) decided was that they wanted to appoint an independent advisor, because that was being advised, that was best practice…
>
> It was around that time that we ran a recruitment … a process to appoint independent advisors to the Rem Co and New Bridge Street was selected as part of that process. My job as an in-house Head of Reward therefore was to try to balance off the fact that we've now got two sets of advisors, because in theory, the company still had Towers Perrin…I, at that point, really didn't want to have two sets of advisors giving conflicting advice. That was kind of the concern that I think many companies were working with: do we want one adviser? Is that going to be sufficiently insightful? Will they know the business well enough? Will they position things appropriately so that they get the executive input into the process?'

Many FTSE 100 companies went through a period of transition in which one set of advisers was appointed by management, another set by the remuneration committee. For those FTSE 350 companies without advisers, many companies decided to appoint one. For those hiring multiple consultants, Bender (2004) suggests that this was meant to bolster the independence of the pay setting process; where one consultant's advice would appear to act as a check on the other's advice. Yet, in a review of the remuneration reports published in 2002, only one company cited two advisors according to this particular rationale[84]:

[84] With the exception of Legal and General, no other FTSE 100 firm indicated that the duplication of services was either provided or desirable in bolstering the perception of independence.

> Remuneration reflects individual experience and responsibility. It is based on relevant individual market comparators, related to job size, function and sector, and individual and company performance. Judgments are based on a range of external information, mainly from major remuneration consultants (including Towers Perrin; Watson Wyatt; New Bridge Street; Monks and MacLagans). The practice is to use at least two independent sources of information for each individual decision.[85]

The leading providers of executive remuneration consulting services to FTSE 350 companies included Deloitte, PwC, EY, and KPMG, and the boutique firms New Bridge Street, Kepler Associates and MM&K. Some FTSE companies did not appoint any advisor to the remuneration committee, and some appointed sole practitioners as opposed to a firm. A summary list of remuneration committee advisers as disclosed in the Directors' Remuneration Reports for FTSE 350 firms (2015) in presented Table 3. The term 'boutique' is used to represent consultancies, which do not operate within the walls of professional service firms. The law firms overwhelmingly provided share scheme implementation advice or other legal advice.[86] In the first full year in which the regulation took effect, 94 per cent of FTSE 100[87] companies disclosed external advisors (Deloitte, 2004). The majority of this external advice was supplied by executive remuneration consulting teams, often situated within professional service firms.

Table 3.3: Remuneration Advice to FTSE 350 Remuneration Committee (2002)

Professional service firms		Boutique		
Consulting tradition	Big4	'Independent'	Sole	Law firms
Hay Group Pearl Meyer and Partners Towers Perrin	Deloitte EY PwC KPMG	New Bridge Street MM&K Kepler Associates	Gerrick Aronson Alan Judes	Alithos Allen Overy Clifford Chance Eversheds Freshfields Herbert Smith Freehill Linklaters Pinsent Masons Slaughter and May

85 Legal and General Remuneration Report (2002)
86 Unlike the accounting psfs, the law firms did not seek to control remuneration consulting work domains. The reasons for this are not fully known, and has been added to the list of puzzles to be resolved in future research.
87 87% of FTSE 250 companies disclosed external advisors (Deloitte, 2004).

It was also the case in the wake of the DRRR (2002) that demand for remuneration consultants surged. In response to this, remuneration consultancies sought to carve out their unique selling points. As one partner described of PwC in the early 2000s:

> 'Go back to 2000 or so, and we had, I don't know, whatever it was, four clients or something. You're going up in a pitch against people who've got 25 clients, that's pretty tough. We had to create a brand that was linked to this idea of actually, we're not just going to tell you what everybody else does. We're going to be more thoughtful about it.'[88]

The core of the PwC executive remuneration consulting strategy centred on 'linking pay to strategy.' In addition to this, the practice, via its partners, sought to 'make contributions to public debates', engage with political and social institutions. The PwC practice became much more consulting oriented, more academic in style and concerned with providing a balanced rhetoric around what was increasingly a politically vitriolic issue.

The politicisation of executive pay posed a firm-level reputational risk, especially in light of the demise of Enron and the introduction of the Sarbanes Oxley Act (SOX 2002). For PwC (and accounting firms generally), the regulatory changes in the early 2000s raised questions about a place for remuneration advice within accounting professional service firms. Given that SOX applied to US public companies as well as their global subsidiaries, and the high degree of uncertainty on the issue of prohibited other services, executive remuneration consulting was by no means secure. Both PwC and Deloitte's[89] remuneration consulting teams carved niches within their respective psfs; careful not to create overlap with audit or tax services.

Given the dominance of the psfs in the field of remuneration consulting, there appeared to be little room for new entrants given the rising barriers to entry.

[88] Interview with lead partner

[89] Deloitte acquired the Arthur Andersen remuneration consulting team (with the exception of two members) in the fallout of Enron. Arthur Andersen, prior to its demise was one of the leading remuneration consultancies. Deloitte absorbed almost the entire 25-person Andersen team, elevating its market share and status in the industry almost overnight.

Against these odds, former SCA Consultants Gordon Clark, Jenny Martin and Peter Smith successfully established Kepler Associates in 2000, based on a philosophy of linking executive pay to creating stakeholder value. Unlike the professional service firms, with teams often comprising accountants, lawyers and actuaries, Kepler built their team by hiring recent university graduates – often from elite universities - and training these new starters almost entirely in-house. Mimicking the hierarchical structure used in psfs, Kepler added layer-by-layer to their practice; promoting entry level associates to senior associates, managers, principals and partners. Kepler built a reputation in the field based on their sophisticated data models and analytics. In the following section, the new work domains made possible by the DRRR (2002) are examined, as well as the implications for remuneration consulting work.

3.9 'All about corporate governance'

There didn't appear to be any doubt that independent advice to remuneration committees would be supplied by the executive remuneration consulting practices which had formed and stabilised in the 1990s to early 2000s. In a review of the 2002 Directors' Remuneration Reports (for FTSE 100 companies), the 'independence' of the remuneration consultant was represented in a plethora of ways. These variations will be described in Chapter 4, when analysing the role of independence in shaping the co-emergence of remuneration committees and remuneration consultants.

The work domains for remuneration consultancies expanded significantly with the enactment of the DRRR (2002). The layout and content of the remuneration report represented new tasks for the consultant. Similarly, the shareholder vote necessitated engagement (or increased engagement) with institutional investors and investor representative groups.

The new disclosure requirements also meant that the proprietary databases containing executive director pay data were no longer a competitive advantage. Thus, the emphasis on proprietary data was thrown into sharp relief for the consultancies. The human resource consultancies, which had operated broader workforce pay databases, had an advantage over the accounting and law firms, the latter of which had focused on the FTSE company executive pay data. New work asks included broadening the database catchment to encompass data for one to two levels below the board.

3.9.1 Shareholder engagement

Another integral channel of governance work stemmed from the introduction of a mandatory non-binding vote on the remuneration report at the company's AGM. Following the legislation, all FTSE 350 companies had put their remuneration report to a shareholder vote in the year following the DRRR's enactment.

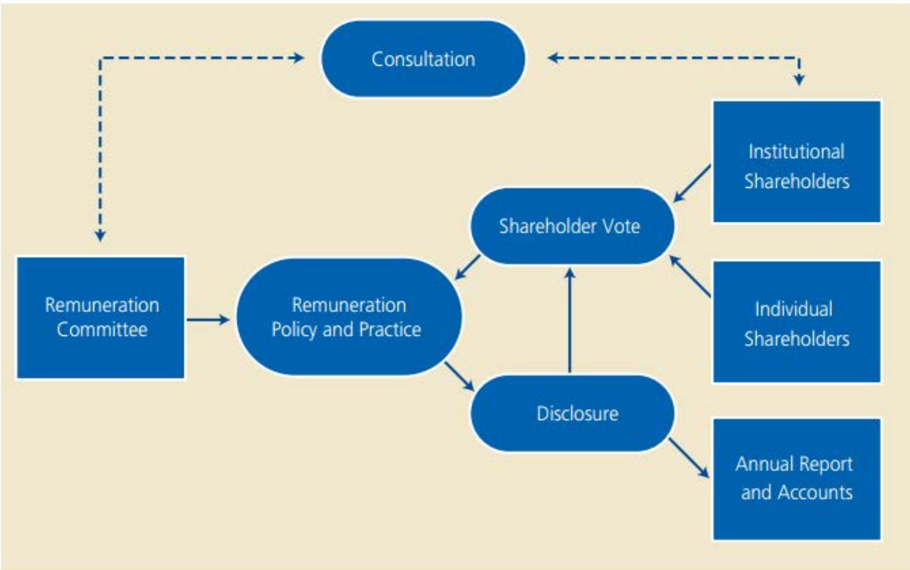
The Remuneration committee's engagement with the largest and most influential institutional investors in their respective companies also increased markedly, and remuneration consultants either accompanied the remuneration committee chair or prepared them in advance of these meetings. Davis (2007)[90] conducted interviews and roundtable events, specifically with AFSCME, Association of British Insurers, Financial Reporting Council, Institute of Chartered Secretaries and Administrators, Institute of Directors; International Corporate Governance Network, Manifest, PIRC, Research, Recommendations and Electronic Voting[91] (RREV), Shareholder Forum, and the Working Group on Advisory Votes. Davis found that subsequent to the establishment of the shareholder vote, pay panels meet more frequently; engaged in design-stage consultation with key investors, investor trade organizations and/or proxy service advisors; utilized more information; and hired more independent outside advice. According to corporate secretaries at the roundtable in London, directors "demonstrated more awareness that their work will be subject to broad scrutiny" and were "more diligent" about crafting policies that allow them 'to defend decisions taken' (Davis, 2007).

[90] Davis (2007) is a policy briefing funded by Yale University's Millstein Centre that drew on the UK experience in order to make proposals for a US advisory shareholder vote.
[91] RREV is the proxy advisory division of Institutional Shareholder Services (ISS).

ABI and RREV both observed the increased communication between boards and investors. According to ABI, company initiated contact prior to finalising plans tripled, while RREV recorded 150 and 130 instances of dialogue in 2005 and 2006, respectively. This contrasts to an average of 20 such outreach efforts by companies in the years prior to the establishment of the advisory vote.

In 2004, Deloitte was commissioned by the Department of Trade and Industry (DTI) to conduct an evaluation on the impact of the DRRR (2002). In the report, Deloitte illustrated the post-DRRR (2002) inter-relationships between institutional investors and companies with the following diagram:

Figure 3.1: Inter-relationship between institutional investors and companies



Source: Deloitte (2004)

Visually absent from Figure 3.1 is the interpenetration of the remuneration consultants in pay governance work. Yet, the remuneration consultants were present in the engagement between the remuneration committee chair and key institutional investors, in crafting the report, and in liaising with shareholders in anticipation of remuneration report vote the annual general meeting. The remuneration consultant had a ‘pulse’ on the key facets of pay governance. The following section argues that these work activities emplaced the consultants as central actors in pay governance because they were perceivably fulfilling a gatekeeping role; a role that they did not oppose, but rather actively enabled.

3.10 The core logics of remuneration consulting work

Prior to the upshot in governance guidelines in the 1990s and the recommendations of the DRRR (2002), the remuneration consultant had operated in the background – with little visibility to politicians or the public. What little visibility they pursued via the provision of pay data to journalists, was premised on increasing their marketability to potential clients in order to boost their economic growth, economic prominence, profitability and market share. Remuneration consulting work was premised on a market logic. The field of remuneration consulting is a near personification of the decline in traditional professionalism, from the disinterested expert driven by a “service ideal” to the knowledge worker producing services within a ‘managerial professional business’ (Abbott, 1988; Dirsmith et al., 2015).

In its earliest iteration, remuneration consulting work included supplying pay information to the remuneration committee and personnel departments, or advising management on the accounting and legal implications of share scheme implementation. Initially, survey data analysis and implementation work, were carried out by different firms. It was only later that both work tasks were offered within the same consulting team. Accounting and law psfs, in particular, seeking to expand into new work domains, were integral in combining pay survey work, share scheme implementation work and incentive design work. These professionals within psfs were seeking interesting work activities, which increased firm profitability, and social and economic prominence. As one former managing partner recalled, ‘if it were just remuneration, you’d have died of boredom years ago. It's actually extracting good business decisions out of a lot of heat and drama. Just trying to get a lot of very powerful people to do what it is you think they ought to be doing is quite addictive really.’ Remuneration consulting work enabled qualified professionals to engage in enterprising work domains.

The shifts into remuneration governance work that followed, were opportunistic, in that governance guidelines that shaped incentive design ultimately shaped and constrained remuneration consulting work. In what was largely unintentional on the part of consultants, a gatekeeping role (Coffee, 2006) emerged as a result of the burgeoning governance codes and legislation surrounding executive pay. The consultants hadn't actively sought such a role. Nevertheless, the consultants were not ones to look a gift horse in the mouth, especially when the governance-related work complemented their already established work processes.

The gatekeeping role, which consultants fulfilled, is not quite the same as the external auditors' gatekeeping role. Prior to analysing the complementarity of the market and gatekeeping logics, which shape consulting work, the consultants' gatekeeping role must first be explicated.

The remuneration consultant as gatekeeper

Coffee (2006) described the term 'gatekeepers' as 'some form of outside or independent watchdog or monitor – someone who screens out flaws or defects or who verifies compliance with standards or procedures' (p. 1-2). Coffee further detailed two distinct roles of the gatekeepers. The first is a 'private policemen who has been structured into the process to prevent wrongdoing' (p. 2). However, unlike the auditor, the remuneration consultant is not a gatekeeper in the sense of withholding consent. While the consultant can withhold cooperation, their signature is neither required by governance codes nor regulation. Prior to the DRRR (2002), there was neither 'rhyme nor reason' for the consultant to assume a policing role. While they had emerged as an intermediary between the committee and institutional investor governance guidelines, this was more so premised on their need to reflect the institutions' recommendations within incentive design.

Prior to 2002, remuneration consultants were almost universally appointed by management teams, if one can even use the term 'appointed', as this term has come to hold particular meaning within the field of remuneration governance.[92] In response to the DRRR (2002) and the regulatory concerns with respect to board independence, a clear articulation of the 'remuneration committee appointed

[92] Consultants interviewed overwhelmingly stressed that they were *'appointed'* by the remuneration committee, in that sense that this in and of itself, reified their independence.

advisor' emerged as a role, which the remuneration consultant could fulfil. In what Coffee describes as the most distinctive part of the gatekeeper, the gatekeeper acts as a reputational intermediary to assure investors as to the quality of the signal' (p. 3).

Even then, there was no impetus for remuneration consultants to fundamentally alter the ways in which they engaged with the remuneration committee. A preventative or policing role would not emerge as a feature of the client-consulting relationship until the *consultants'* independence was called into question. Allegations of the consultants' loss of independence only reached critical mass in the wake of the global financial crisis. The perceived loss of independence will be analysed in depth in the following chapter, which studies the co-emergence of the consultant and committee; challenges to the consultants' legitimacy, and the way in which the consultants reproduced their legitimacy.

Not a professionalisation project

Perhaps it is the consultants' quasi-gatekeeping role, which has been conflated with the emergence of a profession, or an occupational grouping seeking to professionalise. However, the genealogy of executive remuneration consulting up to 2002, suggests more than the stabilisation of a field of collective practice, but less than a profession. By the mid-2000s, executive remuneration consulting has emerged as a distinct occupation, enabled by a complex of macro level conditions, organization-level transformations and micro-level work tasks; and importantly shaped by a dominant market logic.

There is little to no evidence of remuneration consultants seeking to professionalise. The professionalisation project, as Larson (1977) describes, occurs where professions are motivated by a drive for status as opposed to earlier economic motivations. As Schudson (1980) summarises: professionalisation is not a process of upgrading the essential character of a kind of work but a political process of gaining greater control over work.' Therefore, the outcome of the professionalisation project is the attainment of credibility and control.

In the years in which remuneration consulting was emerging as a distinct field of practice, the senior consultants shifting into remuneration consulting work already possessed professional accreditation. Qualified as accountants, lawyers and actuaries, the senior members of remuneration consulting work possessed a first-order professional claim. These individuals possessed a source of identity, which had already achieved status in society. Professionals in the accounting and law psfs initially expected to gain market share because of the social capital derived from their professional qualifications. The accountants and lawyers attempted to tout their professional status vis-à-vis the 'data guys' as a means of overcoming the barriers to entry in remuneration consulting work. Yet, this social capital did not naturally transfer to securing advisory appointments during the 1990s.

Prior to the governance guidelines, it was 'knowledge' of the executive pay market, which imbued remuneration consultants with their value. As Morris and Empson (1998) noted in their study of professional service firms, knowledge is particularly affected by beliefs about what is *useful* or will *add value.*[93] Possessing executive pay data represented special and proprietary knowledge, which differentiated the consulting houses from the accounting firms. When unable to upend the central and elevated role of data in remuneration consulting work, accounting psfs built or acquired survey data houses. The belief that their status would overflow into gaining market share in remuneration consulting work did not initially come to fruition.

The psf effect

Also tempering the pursuit of accreditation processes of self-regulatory bodies was the growing importance of the organization's reputation. The emergence of management consulting and professional service firms as a dominant form of organization superseded the consultants concerns with social closure. The embedding of remuneration consulting work within psf tempered the need to pursue a professionalisation project. By the 1990s, the big accounting firms were no longer referring to themselves as accountants (Greenwood et al., 1998). These psfs had 'championed the concept of 'multidisciplinary practices' (Greenwood et

[93] Emphasis added by the original authors.

al., 1998), and remuneration consulting was seen to fit as one such multidisciplinary practice. It was also typical for psfs to target a broad range of related professional jurisdictions for future colonization. The pensions and benefits-focused psfs re-imagined the scope of the business as human resource or human talent organisations; similarly, the accounting psfs, namely PwC and Deloitte, were advancing Human Capital business segments. Executive remuneration consulting would come to be situated within these business streams.

Remuneration consulting teams drew on the resources, reputation and structural norms of their professional service firms, which largely mimicked the structural form of the 'classic' accounting professions. Chapter 5 discusses in detail the apprenticeship model and hierarchical structure, which an executive remuneration consultancy drew upon for the purposes of constructing knowledge and expertise.

Overall, the 'hodgepodge' of professional actors, over a period of several decades, opportunistically absorbed or captured executive remuneration-related work areas. Not unlike the inter-professional jurisdictional claims described by Abbott (1988), or the colonization of work described by Suddaby and Greenwood (2001), remuneration consultants were claiming new domains of remuneration governance work emerging from the regulatory space. These work domains were made even more attractive to the psfs when consultants started advising the remuneration committee directly.

The client effect

As noted earlier, the remuneration consultant had limited public visibility prior to the DRRR (2002). However, the disclosure of the remuneration committee advisor enabled a visibility of the consultants. The remuneration consultants' status was also substantially enhanced in light of the stature of their board-client. Retaining and promoting their relevance in executive pay design (and later pay governance) was targeted to this client. It has been observed, that the social credibility that enables an occupation to be seen as the legitimate supplier (Cooper and Robson, 2006), is premised on the client acceptance of the adviser's expert claims. Yet, the client-consultant relationship is mutually beneficial; both their claims to independence is inextricably linked. Remuneration committees have time and again found their governance position tenuous in the face of political censure due to high profile failings in board oversight. Thus, it is not only the remuneration consultant who reproduced their legitimate claim to pay governance, but also the remuneration committee. This is explored in Chapter 4.

Chapter 4

The co-emergence of remuneration consultants and remuneration committees

4.0 Introduction

This chapter studies the co-emergence of executive remuneration consultants and remuneration committees as central actors in the governance of executive pay. As described in Chapter 3, remuneration consultants expanded their work domains in response to the enactment of the DRRR (2002) in order to retain their relevance to the remuneration committee. It will be argued in this chapter, that following the DRRR (2002), the independence of the remuneration committee and the expert claims and independence of the remuneration consultant became importantly interlinked. From this point onward, their work in the field of remuneration governance [94] became mutually dependent. As such, neither actor can be adequately understood nor analysed without reference to the other.

Prior to analysing the interlinkages and interdependencies between the consultant and committee, the chapter first describes the rise of the non-executive 'independent' director (or NED), and subsequently the remuneration committee. As was the case in chapter 3, a genealogical approach is drawn upon in studying the historical emergence of NEDs and remuneration committees. Genealogy sheds light on counterintuitive, surprising, and disruptive shifts between consecutive and non-consecutive governance episodes, enabling more critical assessment of the choices being made by consultants and committee members, but also regulators and investors.

Section 4.1 describes demands for non-executive directors and attempts at formalising the requirements of 'independent' non-executive directors throughout the 1970s. Section 4.2 describes the Bank of England's attention to board

[94] Remuneration governance refers to any state, institution, industry, or investor led regulatory or governance initiative covering 'quoted' or publicly listed companies in the UK. In this study, the focus is FTSE 350 companies. While disclosure regulation has largely focused on executive directors (i.e. those with a position on the Board of Directors), remuneration governance often extends to the remuneration of senior executives in FTSE companies, for example, the Executive Committee (i.e. one level below the board) and ExCo-1 (two levels below the board).

governance in the 1980s. Section 4.3 details the rise of institutional investors, and Section 4.4 the emergence of remuneration governance as a distinct institutional field. Section 4.5 describes the DRRR (2002) as well as the Higgs Review (2003). Section 4.6 examines the ways in which remuneration consultants and remuneration committees documented independence in executive pay practices. Section 4.7 describes the impact of the global financial crisis on pay governance and the challenges to the consultants' independence. This section also describes how the consultants' reproduced their legitimacy in remuneration governance. Section 4.8 discusses key themes presented in the chapter, and Section 4.9 presents links to Chapter 5.

4.1 The rise of non-executive directors

This section describes early concerns with board oversight from the 1970s in the UK public company setting. While corporate governance, as a term, was not widely used until the 1980s, these are important early efforts at delineating executive and non-executive directors (NEDs), and in particular, the role, character and independence of the NED. This section demonstrates efforts by the Bank of England to collect and analyse data on board composition, track the growth of non-executive directors, and in so doing, distinguish independent NEDs within the board. It is in seeking to distinguish the independent NED that this section highlights the ways in which actors socially constructed independence in the 1970s and 1980s.

4.1.1 Demands for greater board oversight

In the pre-Cadbury era of board oversight, British boardrooms were often likened to an "old boys' club" (Howe and McRae, 1991), their members supine in their rubber- stamping (Millstein and MacAvoy, 1998) of management decisions. The criticisms of board structure, processes and responsibilities, which largely fell on deaf ears during the early half of the twentieth century, started gaining traction in the 1970s.

There was a perception that the workforce of British companies was being marginalised, and the concept of the stakeholder had to be broadened to incorporate workers. The re-imagined stakeholder, coupled with corporate scandals occurring at the time, lead to the emergence of a public policy concern on the issue of board independence. The idea that non-executive directors should perform an explicit monitoring role and that a proportion of them should be independent of management entered public debate (Parkinson et al., 2000). In a 1970 survey, the largest group of NEDs were made up of bankers, lawyers, accountants and other technical specialists, followed by retired executive directors of the company (BIM, 1970).

Neither the specialist group nor the former directors were considered independent and were seen as unlikely to lead to effective internal scrutiny of management. Demands were made for a legally defined role for NEDs as well as minimum NED quotas on large boards (BIM, 1970). Institutions, such as the Confederation of British Industry (CBI) and the Institute of Directors (IoD), were in opposition to statutory intervention, citing the 'unique circumstances of individual companies, the need for flexibility, and the dangers of prescription' as their key arguments (Parkinson, 1993). The Conservative party had always been a staunch defender of the corporate economy, refraining from state intervention. The Labour government was also unwilling to seek a legislative solution to concerns regarding board oversight. As such, the 1971 Parliamentary bill (which sought three mandatory NED postings) was supplanted in favour of industry and institutional self-regulation. This initiative, commissioned by the Confederation of British Insurers (CBI), the City, and other institutions culminated in the establishment of the Watkinson Committee.

The Watkinson Committee was tasked with investigating possible solutions for improving corporate accountability, especially with regard to workers. Accountability was a central concern as the separation of ownership and control was seen to allow managers to go unsupervised by those whom they had a duty to serve (Watkinson, 1973). In the socio-political climate of 1972, workers felt their concerns were not being taken into consideration by management, which was reflected in the seven-week miner's strike. At the regional level, responsibility to the workforce was the focal concern of the EU Fifth Company Law Directive. The Directive proposed the two-tier board structure with the intention of including worker representation (Davies, 1978; Spira and Slinn, 2013). The Watkinson Committee's 1973 report, entitled *The Responsibilities of the British Public Company*, advocated the use of NEDs and the need for disclosure of their qualifications and interests in the company's annual report.[95] The Committee also recommended that institutions take an active role in identifying viable non-executive directors. It was this recommendation, which would later prompt the committee sponsors, mainly the Bank of England, to establish and fund The Promotion of NEDs (hereafter, PRO NED). None of the report's other recommendations were wholly accepted at the time of its publication (Spira and Slinn, 2013).

Yet, board oversight did not slip from policy makers' attention, and in 1977, the Labour government again attempted to put forth an active monitoring role for NEDs in their White Paper entitled *The Conduct of Company Directors*. The Paper argued for the codification of directors' fiduciary duty, and called for NEDs to provide independent supervision of the company's management. Legislation was once again stymied, with the government preferring to 'leave the issue to the business and investment communities to sort out' (Parkinson et al., 2000). A 1977 Conservative Private members' bill, sponsored by Sir Brandon Rhys-William, called for companies above a certain size to have no less than three NEDs. This bill was also defeated.

Overall, there were several attempts made in the 1970s by politicians and institutions seeking to formalise the boundaries of the outside directors' role as well as define directors' independence. However, for a host of reasons, this was not achieved. Obstacles to regulation included the TUC's resistance to relinquishing power to worker representatives[96], political ambivalence with respect to statutory intervention, and a lack of will amongst business and institutions to actively self-regulate board oversight. Ultimately, the emphasis on

[95] The committee also recommended that a code of corporate conduct be established, and the role of chairman and chief executive be separated.
[96] The relinquishing of control would be in the form of worker representative on the board.

protecting workers and establishing a more broadly defined group of stakeholders - particularly employee participation - ‘withered away with the election of Margaret Thatcher’ in 1979 (Adelopo, 2012). Thus, director independence and oversight was left largely unresolved in the 1970s, and from the 1980s, board oversight was motivated on new grounds. These new grounds would only become apparent as Thatcher’s enterprise culture took root in Britain.

4.2 Board Oversight in the 1980s

Constructing a definition of independence

As described in Chapter 3, Thatcher’s enterprise culture relied on employee share schemes and profit related pay to inspire neoliberal ideals of self-reliance within the British workforce. The emphasis on market fundamentals was coupled with a decline in state interventionist policies. Thus, corporate oversight was vested in the board of directors and a role was increasingly being envisioned for institutional investors. In the absence of corporate failings, and due to the government’s pre-occupation with the privatisation agenda, board oversight and governance did not feature as prominently as it had in the 1970s, and would in the 1990s. In its stead, the Bank of England collected and published data on board composition. The topic featured repeatedly in both the Institute of Directors (IoD) *Director* publication and the Bank of England’s (or Bank) *Bulletins.* On the issue of non-executive directors, the Bank frequently published data either collected by the Bank or PRO NED.[97]

Based on a review of Bank of England *Bulletin*s, the Bank was deeply interested in board composition from the late 1970s. In the Bank’s 1983 *Bulletin*, comparisons were made across the years 1976, 1979, and 1982. Although there was a positive trend toward appointing more NEDs on corporate boards, and an indication that there were fewer companies within the sample that included zero NEDs, the 1976 statistics were seen to be problematic. This is because the 1976 Bullock Survey had assumed that NEDs could be identified based on the reported salary in the annual report. Thus, a director was deemed to be non-executive

[97] As the Bank sponsored PRO NED, there may be little distinction between the two.

where the salary reported was less that £7500. This was later seen to be an unacceptable means of delineating non-executive directors from executive directors, and the Bank subsequently improved the rigour of the survey.

The 1988 survey also presented comparative statistics across the years 1983, 1985 and 1988. In this edition of the Bank's Bulletin, in addition to the data on board composition and board member credentials, board member independence was also featured. The timing of its appearance is not surprising given that PRO NED had published a code in 1987 which detailed recommended practice for non-executive directors.

PRO NED had also set about surveying companies on the progress being made with respect to introducing NEDs, and furthermore, ensuring that NEDs were independent. Independence, in the PRO NED surveys, was defined mainly with reference to financial links to the company or to previous service as an executive. With respect to the latter, companies were asked to indicate how many of their non-executive directors were serving or had served the company in a professional capacity and how many were former executives of the company or its subsidiaries.

Although the Bulletin's survey comparisons indicated increased NED appointments, progress remained slow. In terms of clarifying the boundaries of the NED role, the Bank stated:

> A suitable non-executive director will generally be able to offer detached and independent advice that full-time executive directors may be less well placed to give, and he may also be able to provide additional expertise in specific areas, such as finance.

Thus, the definition of the non-executive centered on directors' qualifications and ability to monitor effectively, while PRO NED's definition of 'independence' was based upon the NED's distance from the business. The Bank of England and PRO NED were central in analyzing and documenting board composition and board independence throughout the 1980s. While the decade drew to a close with little formal public policy discourse on the issue of board oversight, the 1980s were also marked by the rise of two critically important actors in the field of governance – the ABI and the NAPF. The following section describes the rise of institutional investor representative bodies and the role, which they assumed in remuneration governance.

4.3 The rise of institutional investors

Throughout the 1980s, institutional investors (for example, pension funds) supplanted the influence of industrial relations groups[98] in matters of board oversight, and emerged as the stakeholder of central concern for companies. In the March 1984 *Bulletin*, the Bank of England described the change in institutional shareholdings:

> Two decades ago the life assurance companies, pension funds, investment and unit trusts together held about a quarter of the equity of companies listed on the Stock Exchange. The proportion has more than doubled since then. In contrast, and over a slightly longer period, investment in listed equity by individuals fell from about two-thirds of the total in the late 1950s to about one-third now.

The two key voices, which emerged in the 1980s, were the Association of British Insurers (ABI), and the National Association of Pension Funds (NAPF). The ABI was established in 1985 through the convening of several specialised insurance industry trade associations, including the British Insurance Association, the Life Offices' Association, the Fire Offices Committee, the Accident Offices Association, the Industrial Life Offices Association and the Accident Offices Association (Overseas). These associations joined together to form one trade association for the insurance industry. The NAPF, formed in 1923, was a non-for-profit that served as the 'voice for workplace pensions' in Britain.

Banks did not believe that institutional investors of this size were seen to be unlikely to buy or sell blocks of shares in retaliation to poor governance. Yet, there was also little expectation that institutional investors would take an active role in corporate governance. Rather, their 'most important element in the

98 See Spira and Slinn (2013) for further evidence of the shift from industrial relations groups to institutional investors.

husbandry of this investment (was) assurance that the board has the right mix of abilities and experience to provide good direction (Bulletin, 1984, p. 76). However, if there were perceivable board failings, there was little guidance given by the state or self-regulatory mechanisms on what the institutional investor could do to rectify the problem.

The institutions did not deviate from the Bank's expectations. Their governance role remained largely muted. With respect to remuneration, the investor representative bodies assumed a governance role as their concerns grew regarding potential equity dilution (Main, 1993, 1999, 2006). As described in chapter 3, the 1984 Finance Act precipitated an explosion in executive stock option plans for which the ABI and NAPF were concerned with 'the prospect of equity dilution through over-zealous use' (Main, 2006).

The investor concern principally arose because the vast majority of executive stock options were serviced through the new issuance of shares (i.e. subscription) as opposed to the company acquiring shares on the open market (Main, 2006). Furthermore, executive stock option pay-outs were making investor groups increasingly uneasy. Options, previously extolled as 'at risk', were allowing for windfall gains and 'jackpot' remuneration during the privatisations. While institutional investors supported the use of share schemes, questions were arising as to whether incentive pay-outs reflected the executive's or firm's performance. Thus, institutional investor representative bodies issued governance guidelines.

Table 4.1: Key Governance Guidelines (1980s)

Date:	Event:
Nov 1984	NAPF: 'Share Scheme Guidelines'
April 1985	BIA Investment Protection Committee
July 1987	ABI: 'Share Option and Profit Sharing Incentive Scheme'
March 1988	NAPF: 'Share Schemes'
May 1988	ABI: 'Addendum to Share Option and Profit Sharing Incentive Scheme Guidelines'

Source: Manifest

The attentiveness to shareholder value and the alignment of shareholders and management was revolutionising the institutional field of corporate governance in the United States (Fligstein & Shin, 2007) during the 1980s. Fligstein and Shin (2007) identified a logic of shareholder value as core to the field, describing it as one which was ideologically rooted in agency theory and which promoted the maximisation of shareholder value. This logic was similarly taking root in the UK, importantly captured in the Cadbury Committee deliberations described in the next section. As noted earlier, institutional investors critically shaped the tone of the Cadbury Report, and the conditions of possibility for UK corporate governance. The following section also describes the conditions, which led to the emplacement of executive remuneration within the Cadbury Committee's remit.

4.4 The field of remuneration governance

Britain entered the 1990s in severe recession. The UK economy was suffering from high unemployment, the government was proceeding with its privatisation of British Coal, Powergen, National Power, and British Rail and companies were undergoing staff reductions. These difficult economic times and the fall-out from the BCCI scandal and other corporate failings appeared in stark contrast to rising CEO pay (Delman, 2010). The argument that British executives were paid far less that their American counterparts was less palatable. Furthermore, the justification that high pay was the result of superior firm performance was losing ground as evidence was published on the growing disconnect between directors' pay and company performance. It was for these reasons that executive remuneration entered Cadbury's deliberations, despite Sir Cadbury's efforts to contain the scope of his committee's remit.

4.4.1 Cadbury Report

'Sunlight is the best disinfectant' (Brandeis, 1934)

In May 1991, the Financial Reporting Council, the London Stock Exchange and the accountancy profession convened a committee under the auspices of Sir Adrian Cadbury (Retired Chairman of Cadbury Schweppes and at the time, Chairman of PRO NED) to address financial aspects of corporate governance. The board’s monitoring role was seen as central in governance, and the Committee’s work importantly focused on the NED’s ability to challenge executives. The Report opined on the main functions and responsibilities of the NED, stating that they should bring an independent judgement to bear on issues of strategy, performance and resources including key appointments and standards of conduct (Cadbury Report, 1992). There was to be no legal distinction between the executive and non-executive director, however, non-executive directors were at an informational disadvantage vis-a-vis internal directors. The focus on internal control and the NEDs’ role in governance led to further emphasis on board subcommittees. Cadbury was resistant to broadening the scope of the committee’s remit, however the Maxwell scandal which occurred during the committee’s deliberations created further momentum for executive pay oversight.

4.4.2 Cadbury deliberates on pay governance

The Cadbury Archives include the meeting notes between Cadbury and Jonathan Charkham. Charkham, then governor at the Bank of England, a prominent corporate governance pundit and member of the PRO NED initiative saw remuneration as being set within ‘cabals of pay’ and believed that a fair pay system was ‘extremely difficult to devise. He believed this was due to the drawbacks of stock options and earnings per share, as well as the problem of time lags where payment of bonuses did not necessarily align with sustained profit levels. Charkham highlighted two different concerns, the transparency of executive pay setting and the problematic nature of the pay components. The Committee’s deliberations on the structure and responsibilities for remuneration committees were further shaped by the following; the Institutional Shareholders’ Committee (ISC) (Main, 1992), PRO NED, and prevailing practice in the US.

The Institutional Shareholders Committee (ISC) - whose membership in 1991 included the Association of British Insurers, the Association of Investment Trust Companies, the British Merchant Banking and Securities Houses Association, the National Association of Pension Funds, and the Unit Trust Association - was also concerned with the independent setting of directors’ remuneration. The ISC insisted that executives should play no part in deciding their own packages and further called for remuneration committee composition to be disclosed in the annual report.

PRO NED Guidelines, published almost simultaneously with the Cadbury Report, emphasised that getting the right information to NEDs was at the 'heart of the matter.' It was their view that populating the committees with independent NEDs was an initial step, but 'if the committee is to have a real role it must satisfy itself that it had all the information it needed about both internal relativities and external comparisons on executive pay (PRO NED, 1992).

Following the publication of the Cadbury Report, PRO NED released guidelines stating that the remuneration committee should (i) ensure that the company's directors and senior executives are fairly rewarded for their individual contributions to the company's overall performance and (ii) demonstrate to all the stakeholders in the business that the remuneration of the senior executive members of the company is set by a committee of board members who have no personal interest in the outcome of their decisions and who will give due regard to the interests of the shareholders and to the financial and commercial health of the company. Where Cadbury had suggested committees be wholly or mainly populated with NEDs, PRO NED went further in recommending that remuneration committee members be wholly comprised of *independent* non-executive directors.

Cadbury's recommendations were also influenced by the SEC's 1978 regulations pertaining to Compensation Committees (Main, 1992). Charkham suggested that 'one possibility worth considering was 'whether shareholders should be asked to approve in advance either the method or amount of remuneration.'[99] Charkham noted that the SEC had previously refrained from regulating shareholder engagement on directors' remuneration as pay setting was seen to sit within the remit of the board. However, the US was 'now understood to be changing its mind.'[100] The UK's corporate governance pundits were particularly interested in

[99] CAD-02153: Cadbury meeting with Charkham. 19 June 1991
[100] Ibid

American policies as there was ‘a growing suspicion that (Britain’s) main competitors' systems of corporate governance might be one of the factors giving them a competitive edge’ (Charkham, 1993). Compensation Committees were already institutional practice in US boardrooms by the 1980s (Main, 1992).

Despite the interest in introducing a role for shareholder engagement, disclosure emerged as the cornerstone of Cadbury’s regulatory efforts. The Report described governance’s overriding principle as one of openness (ICAEW, 1992), whereby shareholders were entitled to a full and clear statement of directors’ present and future benefits. In addition, separate figures should be given for salary and performance-related elements; the criteria on which performance is measured should be explained; and the relevant information about stock options, stock appreciation rights, and pension contributions (ICAEW, 1992). The report also recommended the establishment of remuneration committees consisting wholly or mainly of non-executive directors.

4.4.3 Impact of the Cadbury Report

Remuneration committees existed in many British companies prior to the publication of the Cadbury Report. Research conducted in 1990 found that 30 per cent of a sample of 220 companies reported the existence and composition of a remuneration committee in their annual report.[101] Of these committees, approximately 70 per cent solely comprised NEDs (Main and Johnston, 1992). Yet, while these subcommittees indeed existed, their role in remuneration governance was made a central imperative of the Cadbury Report and later the Greenbury Report. As Main et al (2006) stated:

> ‘Before 1992, few people knew or cared whether a company determined the pay of its top executives by making use of a board sub-committee known as the remuneration committee. Starting with the Cadbury Committee, however, the subsequent decade saw this organisational arrangement move centre stage in what has become an increasingly heated debate regarding executive pay.

[101] The actual number of committees was also assumed to be higher since many companies did not disclose the existence of their remuneration committee.

Brian Main was also conducting research on remuneration committee work at the time of the Cadbury Committee deliberations. He found, in his 1992-1993 study that the pay setting process had ‘gained a significant amount of inertia’ as remuneration committees had come to rely on pay data from remuneration consultants. Main (1993) further noted that committees were caught between senior management to whom the NEDs were beholden, and the shareholders who scrutinised pay, resulting in the committee ‘paying the "going rate" as revealed in remuneration surveys.’ The consequence of this was that by establishing remuneration committees and by relying on pay data from remuneration consultants, the pay setting process ‘gained a significant amount of inertia’ (Main, 1993).

The Cadbury Report played a central role in institutionalising remuneration committees by identifying them as best practice. PRO NED’s guidelines bolstered the informational needs of the director. The remuneration consultants continued supplying data to personnel departments. Their status had been elevated, as a board sub-committee was now a recognised recipient of their pay data and pay analytics. What is perhaps surprising in that while Main raised concerns with respect to the isomorphic tendencies emerging from the use of data and the RemCo’s risk aversion, this was not evident in the policy documents published during the period.

As described in Chapter 3, remuneration consulting work was shaped by the governance guidelines issued by institutional investor representative groups, which inevitably filtered through to the design and structure of executive pay packages. As Cadbury had conceded that the governance of executive pay was an incomplete project, further governance efforts would fall within the purview of a later committee. However, the public angst over pay largely dissipated following Cadbury’s publication. Executive pay packages were brought to the fore once more as windfall gains for executives of newly privatised companies triggered political censure and increasing resentment, particularly amongst the unions. Given the government’s preference for non-statutory governance solutions, further governance for executive pay was entrusted to the Greenbury Study Group. The eventual Greenbury Report focused much of its attention on disclosure and pay for performance linkages, and little on the independence of either consultants or remuneration committees. Independence in executive pay determination emerged as an object of concern in the early 2000s with the DTI's consultation processes and the Higgs Review.

4.5 Statutory intervention in remuneration governance

In 1999, in response to government's decision to cap pay deals for public sector workers, executive pay was once more emplaced as a policy concern. The DTI maintained that self-regulation was still preferred to state intervention and new laws would remain a last resort (BBC, 1999). Released in July 1999, the DTI's consultative document largely centred on the shareholders' rights to accountability and transparency. The mechanism by which remuneration committees could be held to account was via an advisory vote on the remuneration report at a company's annual general meeting. Where Greenbury had suggested a voluntary vote on remuneration, the DTI set their sights on making the vote mandatory.

There was growing interest once more in defining more stringently, the characteristics and indicators of independence for NEDs. The 1999 consultative document emphasised the potential for conflict of interest in the setting of pay:

> There are, for example, many instances where the company's non-executive chairman is a member of the remuneration committee in circumstances where it is far from clear whether that person is (to quote from the Combined Code) "independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

However, momentum for regulatory change fizzled in the ensuing three years despite a second consultative document being published in 2001. It took pay furores at companies Prudential and Vodaphone and the collapse of Enron in the US for the government to commit to new governance mechanisms and importantly, legislative change. Drawing from the consultative documents published in 1999 and 2001, the DTI drafted their final report and on June 25, 2002, submitted it for Parliamentary approval. It proposed disclosure of the company's policy on directors' remuneration for the coming year[102]; details on share options or other long term incentive plans (LTIPs); the reasoning behind the performance criteria introduced where significant changes in policy occurred; and whether and why any share options or LTIPs are not performance related. The DTI also proposed that the remuneration report contain a graph illustrating the change in the company's shareholder return and full details on any director service contracts. A representative of the committee or the company secretary would be required to sign the report on behalf of the committee. Failure to do so constituted an offense for which the committee would be liable to a fine.

As substantial as these disclosure and accountability mechanisms were, the most significant change was the introduction of the mandatory (non-binding) shareholder vote on the remuneration report. Failure to put the report to a vote at the AGM also constituted an offence for which the directors' would be liable to a fine. The report also recommended that the report disclose the name of the remuneration adviser, alongside a list of other services provided by the consultant to the company and a statement as to whether it was a committee appointment.

The Directors' Remuneration Report Regulations was approved in July 2002, enacted in August 2002, and took effect for quoted companies with year-ends on or after December 31, 2002.

4.5.1 Higgs Review: Defining independence

Overlapping the deliberation on remuneration governance was the commissioning of a review on the role and effectiveness of non-executive directors. The committee, led by Sir Derek Higgs, sought to define and bolster the independence of non-executive directors. In January 2003, the Higgs Report was published, defining independence as independent in mind, and in character and judgement. The report stated that all non-executive directors should be independent of mind and willing and able to challenge, question and speak up. The expert 'outside' adviser also emerged as an important concern in remuneration committee work. Higgs stated:

[102] This would compliment disclosure of remuneration agreed for the preceding year.

> Research confirmed the worries of many directors that compensation consultants were often perceived to be too close to executive management and too ready to encourage companies to position their remuneration policy in the "upper quartile" of their peer group comparators. Such a policy can have a one way ratchet effect which is undesirable for individual companies and inflationary and self-defeating in the market place.

Higgs summarised the principal duties of the remuneration committee, of which only one referred to the consultant. It recommended that the committee 'be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.' The Higgs Review and its summary of principal duties were subsequently included in the Combined Code on Corporate Governance (2003). Also included in the summary was the recommendation that the committee 'make available its terms of reference, explaining its role and the authority delegated to it by the board.' However, the Financial Reporting Council (FRC) delayed the implementation of Higgs' proposal, instead establishing a working group to consider the report further. The approved Higgs' recommendations were not implemented until 2008. Its influence, however, was felt well ahead of this official implementation.

4.6 Documenting Independence

In the wake of the newly implemented statutory regulations, committees and consultants had choices to make around the articulation of their relationship in the newly required Directors Remuneration Report. Bender (2004) suggested that the practice of hiring multiple consultants was being used to bolster the independence of the pay setting process. In this way, one consultant's advice would appear to act as a check on the other's advice. However, in a review of the remuneration reports published in 2002, only one company appears to draw on such a practice. The Legal and General remuneration report stated:

> Remuneration reflects individual experience and responsibility. It is based on relevant individual market comparators, related to job size, function and sector, and individual and company performance. Judgments are based on

> a range of external information, mainly from major remuneration consultants (including Towers Perrin; Watson Wyatt; New Bridge Street; Monks and MacLagans). The practice is to use at least two independent sources of information for each individual decision.

Across the FTSE 100 firms, consultant's independence was being articulated in a number of ways. It was common for committees appointing boutique firms (e.g. New Bridge Street and Kepler) to identify the advisers as the 'independent remuneration consultant' based on the absence of other services. In this vein, if a multi-service firm provided only remuneration services to the committee, they could equally be described as independent. For example, Pearson's remuneration report stated:

> To ensure that it received independent advice, the committee appointed Towers Perrin who supplied survey data and advised on market trends, long-term incentives and other general remuneration matters. They did not provide other services to the company.

However, Exel's use of the term independent would then require a different interpretation. The Exel remuneration report states:

> During 2002 the committee formally appointed as advisors and received guidance in relation to executive reward and share schemes from Towers Perrin, NBS and PWC. Towers Perrin also provided Exel with independent actuarial, benefits and risk management services.

Diageo's report on the other hand states that 'the company, with the agreement of the remuneration committee, appointed the following independent and expert consultants…' (Diageo Annual Report, 2002). Given that criticism rested on management's involvement in remuneration consultant selection, it is unclear how the company defines independence, as it is does not avoid the perceived conflicts of interest.

Remuneration committees needed to project objectivity, neutrality and importantly, independence in pay setting processes. The committee, in tandem with their chosen advisor, achieved this through the use of rhetorical strategies centred on independence. As Power (1997) noted, the way of talking about a practice is an important feature of the practice itself. The regulation importantly enabled the linking of remuneration committees and remuneration advisers by linking the notion of independent pay setting to the committee's ability to appoint its own advisors. Bender (2012) and Gallani (2015) support the view that remuneration consultants were appointed in order to signal rigour and independence in the pay setting process. However, given that remuneration consultants were themselves the subject of some criticism, rhetorical strategies to bolster their independence were also necessary. These rhetorical strategies were articulated through the remuneration report, and the terms of reference, which Higgs had recommended. The terms of reference[103] used by British companies are almost verbatim the summary of principal duties outlined by Higgs.

4.6.1 No marked advantage for boutique firms

In the American market for pay advice, boutique firms marketed successfully that the absence of other services and cross selling reduced their conflicts of interest, and thereby signalled their independence. The boutique firms in the UK market did not transform the market for remuneration advice in the same way. Although the new regulations called for disclosure of the adviser along with other services, the UK's remuneration consultancies had not been deeply implicated in the shortcomings of remuneration governance. As one managing partner described how the separation of advisers didn't take root in the UK:

> 'It's an interesting sort of philosophical approach, and different markets have gone different ways, because of course that model is complete separation of advisors. It's absolutely the norm in the US, and to some degree in Australia. It's never really caught on here. I think the issue is that while having an adviser who advises the remuneration committee and does nothing else…although that seems to be more independent, the risk is that they just become detached from the realities of the business.'

The remuneration consultancies sitting within psfs were quick to challenge this enhanced 'independence' of a boutique firm, arguing that a single client for a boutique firm could represent 20 per cent of their revenue, as opposed to 2 per cent, for example, for a psf consulting team.

[103] It is common for these to be found on a company's website, under the corporate governance section.

It is then unsurprising that in the decade since the DRRR (2002) was enacted, boutique or stand-alone consultancies almost entirely disappeared from the field of remuneration consulting. This is not because they failed, but rather because professional service firms acquired a number of boutiques. It was also not uncommon for psfs to retain the name of prominent boutiques possessing strong reputational brands.[104]

4.7 Continuous intervention in remuneration governance

Throughout 2007, the sub prime mortgage crisis, which had gripped US banks, was rapidly spreading through the highly interconnected global financial institutions. By October 2008, panic had set in and the government announced rescue plans for the banking system, notably bailouts totalling £37bn for RBS, Lloyds TSB, and HBOS. By the end of 2008, the FTSE 100 closed 31.3% lower from the beginning of the year, and the UK had officially entered recession.

Table 4.2: Executive Pay Governance (2009-2010)

Date:	Event:
2009	Walker Review
2009	Institutional Shareholders' Committee releases the Code on the Responsibilities of Institutional Investors
2010	Remuneration Consultants’ Professional Code of Conduct established
2010	Remuneration Consultants Group established

By February 2009, the government mobilised a regulatory initiative to strengthen systemic failings in the banking sector. The Chancellor of the Exchequer, the Secretary of State for Business, Enterprise and Regulatory Reform and the Financial Services Secretary to the Treasury announced a review to recommend measures to improve the corporate governance of UK banks, particularly with regard to risk management. There was a strong and growing sense that the bonus culture in banks had not only precipitated the crisis but also deepened it. As such, both committee oversight and remuneration policy were investigated.

[104] New Bridge Street still retains it name almost a decade after its acquisition by Hewitt Associates, for example.

The Walker Review was concerned with NED independence, stating that board oversight required 'a materially increased time commitment from non-executive directors (NEDs), from whom a combination of financial industry experience and independence of mind will be much more relevant than a combination of lesser experience and formal independence.' Furthermore, the Walker Review was deeply concerned with the overarching remuneration framework, of which the remuneration consultant's work was a critical feature.

The Review sought to extend the work of the remuneration committee to cover the whole firm as well as being directly responsible for employees who perform a significant influence function or whose activities have or could have a material impact on the risk profile of the entity. The report recommended deferments for cash bonuses, and lengthier vesting periods for LTIPs. It was also proposed that the committee chair face re-election if the remuneration report received less than 75% approval at the AGM.

Walker also recommended that institutional investors play a more active role, especially in situations where they suspected weakness in governance. Whether or not Walker and FRC recommendations catalysed them into action, institutional investors were boisterous and vociferous during the 2012 AGM Season, prompting the media to dub that year the Shareholder Spring. In 2012, more FTSE all share companies received no votes than in the preceding nine years combined.[105] The dynamics of institutional investor engagement is an important dimension of pay governance, which is not adequately covered within the scope of the thesis.

The following section described how the Walker Review challenged the legitimacy of the remuneration consultants and the steps taken by the industry to demonstrate their independence, professionalism and claim to the gatekeeping role which they had, to date, only partially fulfilled.

[105] High shareholder dissent occurred at Barclays, UBS and Reckitt Benckiser.

4.7.1 Crisis, Collaboration and the Professional Code of Conduct

Through Walker's consultation, consultants were described as 'self-interestedly' responsible for some part in the escalation of banks and other financial institutions' remuneration packages. During the consultation period, comments were voiced with regard to the 'undue focus on median or inter-quartile ranges of external comparatives' rather than broader focus on the spread of underlying data and the different characteristics of companies and incumbents in the sample; the lack of clarity in some cases as to whether the client is the remuneration committee or the executive; and possible conflicts of interest and concerns as to independence where the consultant is part of a group that has other fee-paying relationships with the entity to which remuneration advice is being provided.

The draft proposal of the Walker Review stated:

> 'One ingredient in the urgent and much-needed restoration of confidence in remuneration processes will be greater confidence in the integrity and professionalism of external consultants. Principal issues to be addressed are the integrity of the advisory process; the professional capability and competence of the adviser; and total clarity as to the nature of the remit to the adviser and the identity of the client within the firm.'

Both Walker's recommendation and a proposed solution were presented in the same draft document. The comments captured during the consultative period were enough to launch the remuneration consulting industry into action. Cognisant that a failure to create an internal oversight function could trigger statutory regulation of remuneration consulting services, managing partners at three of the leading consultancies - John Carney (Towers Perrin), Carol Arrowsmith (Deloitte) and John Lee (New Bridge Street) - discussed the formation of a Professional Code of Conduct. In collaboration with the other leading providers of remuneration consulting services for FTSE 350 companies, the content of the Code was decided upon and included in the draft proposal of the Walker Review. The formation of the Code was overwhelmingly described as a defensive strategy by senior consultants. The subsequent formation of the Remuneration Consulting Group (RCG) was motivated with the principal focus of overseeing and updating the code. Neither the formation of the code nor the Group were the beginning of a professionalisation project (Larson, 1977). Both initiatives were in response to the challenges to the consultants' independence. As one lead partner recalled of a meeting between David Walker and representatives from the industry, Walker's message to the consultants was paraphrased as follows:

> 'You lot as a profession need to stand up for yourselves more, and you need to be stronger as a profession so that you're not the whipping boys anymore'

Although 'everybody hoped it would not be necessary', remuneration consultants were 'under a lot of fire' and the choice was either to pursue self-regulation or be regulated by the state.

Remuneration consultants did not promote self-regulation through the professional body. The leading partners across the industry debated fiercely to ensure that the RCG operated conservatively in a stewardship role, encouraging 'good practice' and updating the Code. Furthermore, the RCG only accepted organizational members, and not sole practitioners. The main industry players were ensuring that psfs retained their role as the main vehicles for professional control and standard setting (Muzio et al., 2011; Cooper & Robson, 2006).

Despite the consultants' efforts at signalling their independence and objectivity through the code and by the formation of a professional body, political and media criticism continued to plague the field. As politicians and the public grappled with the extent of the financial crisis, and the role of incentives in prompting excessive risk taking, the penchant for increased accountability surged once more.

The Department for Business, Innovation and Skills (BIS) launched two consultations in 2012. The proposed regulation sought to significantly increase disclosure of incentive structures and details of external pay advisers, as well as strengthen shareholder say in pay design.

In a June 2012 article by the Telegraph, the consultants were likened to 'arms dealers. In the article, Russell (2012) stated:

> Lurking in the background of the corporate landscape they peddle the ammunition, in the form of executive pay "reviews", which have been used to such deadly effect against company boards. They operate with little accountability, less responsibility and almost no transparency.

Also in June 2012, an article published by Goodley (2012) in the Guardian described consultants' conflicts of interest. The article stated:

> An analysis by the Guardian shows that almost 70%[106] of pay consultants sold supplementary services to companies whose remuneration committees they had guided. The figures emerged following critical comments about the sector from former City minister Lord Myners and from the High Pay Commission, which in November highlighted concerns that consultants "ratchet up" executive pay.

In an interview around this time, RCG Chairman Martin Read stated that the industry was viewed as having 'horns growing out of their heads... the devil incarnate' (Russell, 2012).

As one Head of Reward at a FTSE 100 company surmised of the institutional investor reaction to the allegations made of consultants' independence:

> They are concerned ... they've kind of bought the story…- the Vince Cable[107] story - that there's a kind of ratcheting up and that ... the remuneration consultants are kind of paid by the chief executive to prove that he or she is underpaid…

Across the large FTSE companies, institutional investors and representative bodies insisted upon liaising with the remuneration committee chair directly. Some remuneration committee chairs responded to these demands by accompanying the remuneration consultant. Increasingly for the larger FTSE companies, the head of reward would facilitate the dialogue between key investors and the remuneration committee chair. Where a company's executive team was committed to using executive pay as a strategic tool, there tended to be a stronger representation by the head of reward in the incentive design process

[106] The Guardian noted that this was based on 'the 50 most valuable UK public companies' (Goodley, 2012)
[107] Lib-Dem Vince Cable was Business Secretary under the coalition government.

and investor relations. The rising prominence of the head of reward, or global reward roles was to the detriment of the remuneration consultant's relevance in incentive design work. The following chapter analyses, in further detail, the consultants' work in buttressing their hold on the market.

The changes would require lengthier and more detailed reporting. Demands for a binding vote also introduced uncertainty for companies and boards. The proposed mandatory binding shareholder vote created uncertainty in the industry given its limited precedence. Some pundits even argued a binding vote would be unconstitutional and impossible to enforce. Despite the avalanche of criticism, which the consultants had weathered, the remuneration committee had similarly and for a much longer period of time also been subject to media scrutiny and criticism. Thus despite the consultants seeming fall from grace, the remuneration committees were the client-audience who continued to validate their claim to pay-governance expertise. Further regulation, if anything, presented increased work opportunities for the consultant.

4.7.2 Consultants' 'policing' role emerges

The Enterprise Reform Bill (2013), which took effect on September 30, 2013, entailed a host of legislative changes, of which remuneration constituted a subsection. The bill introduced substantial changes to reporting and represented the biggest change in the field since the DRRR (2002) came in to effect (IAS, 2013). The objectives of the bill included 'boosting transparency so that what people are paid is clear and easily understood and giving shareholders more power through binding votes so that they can hold companies and directors to account (Deloitte, 2013). The disclosure requirements with respect to providers of advice would now include details on (1) who appointed the adviser, whether or not it was the committee and how they were selected; (2) whether and how the remuneration committee has satisfied itself that advice received was objective and independent; and (3) the amount of fee or other charges paid by the company for the provision of the advice or services received by the company and the basis on which they were charges.

These disclosure mechanisms were then coupled with the consultants playing a policing role in the boardroom. As one remuneration committee chair of a FTSE 100 firm recalled:

> 'The consultants are often the people who are saying, "I wouldn't do that if I were you. Really, you've got to get this passed"…They've been urging caution'

Similarly, a senior governance analyst at one of the leading institutional investor representative bodies described what she perceived as changing practice between consultants and clients:

> 'I've been to seminars run by Deloitte for example, where the consultants were quite aggressive towards what their clients could and couldn't do. In fact I've heard one of them say, "You get paid enough, do you really need to have a pension equivalent that is paid in cash?" '

It was the case that consultants had urged caution or challenged pay choices prior to the allegations made in the media and governance discourse. However, it was the heightened awareness amongst the key actors, which prompted investors and boards to see the consultants' challenges in new ways.

4.8 Discussion

In this chapter, the emergence of the non-executive director is described. With the rise of NEDs in British boardrooms, a role was created for a NED-led remuneration committee to oversee executive pay determination. The perceived shortcomings of the NED identified in the Cadbury Report were seen to be the likely shortcomings of the remuneration committee. As the NED's information needs were a central concern, pay information - the core of remuneration consulting work - would become the firm ground upon which remuneration committees could exercise their pay oversight role. When the independence of remuneration committees was challenged in the early 2000s, the objectivity of the pay advice was questioned. To resolve this, the committee would appoint their adviser independent of management. The remuneration consultant, already the well-established provider of information ascended to committee-appointed adviser. The remuneration consultant provided much needed pay data and the appearance of an external adviser, and the RemCo's status of corporate guardian elevated the status of the consultant. As described in chapter 3, in the wake of the 2002 regulation, the consultants assumed a quasi-gatekeeping role to further bolster the remuneration committee's claims to independence in executive pay determination. As long as the remuneration consultant were seen to advise the board of Britain's largest companies, they were perceivably operating at the same level as professions similarly enlisted in governance work, such as external auditors, actuaries, and lawyers.

It is on this basis that the committee and consultants' governance roles were mutually dependent. Later, as the financial crisis unfurled, both remuneration committees and remuneration consultants were implicated in promoting, allowing, or at the very least, not deterring incentive systems, which encouraged executives to take actions that deepened the crisis. At risk of statutory regulation of their occupation, remuneration consultants begrudgingly created a code of conduct and a professional body.

The professional body would assume a passive, almost supine role, focusing principally on stewardship for the professional code. What is perhaps surprising is that the senior members of the remuneration consulting teams were overwhelmingly members of professions themselves. Yet, remuneration consultants, rather than adopting a professions logic, sought to bolster their gatekeeping logic, even though it was their gatekeeping role which had been 'dealt a blow' with the onset of the crisis.

This raises questions about the nature of the consultants' independence. More broadly it raises questions about the nature of corporate gatekeepers' independence. In the allegations, which arose about the consultants' loss of independence, the emphasis on the consultants' conflicts of interest would have struck corporate governance pundits as familiar given the near perfect overlap with allegations which have been made of the external auditor for decades.

In appealing to a gatekeeping role, the consultants, whether unwittingly or not, had exposed their independence claims to the same yardstick by which other gatekeepers' objectivity and independence had previously been measured. In particular, the calls for independence for remuneration consultants had mimicked the demands made of auditors.

An auditor independence logic had been transposed into the field of remuneration governance. Within the audit literature, the academic discourse on auditor independence is often traced to the seminal work of Mautz and Sharaf (1961). In their view, the only way for auditors to maintain an appearance of independence was to engage in auditing without providing any non-audit work. Otherwise, conflicts of interests may be seen to arise when an audit firm provides auxiliary or additional services alongside the audit. DeAngelo (1981) reinforced this by stating that economic dependence damages auditor independence perceptions. These key contributions to the academic literature shaped the defining characteristic of independence as potentially jeopardised by the provision of non-audit services to the client.

In the context of the corporate gatekeeper, Bebchuk and Fried (2003, 2004), develop on a theory of managerial capture, which has its roots in the auditor independence logic. The authors propose that the consultant has strong incentives to please the CEO (Bebchuk and Fried, 2003). The consultants' loss of independence as a function of conflicts of interest or managerial capture was then drawn into the academic discourse on remuneration governance in seemingly unproblematic ways, and without pause. Murphy and Sandino (2010) state:

> 'The provision of these other services also creates a conflict of interest, because the decisions to engage the consulting firm in these more-lucrative corporate-wide consulting areas are often made or influenced by the same top executives who are benefited or harmed by the consultant's executive pay recommendations.'

In drawing on the managerial capture perspective, Conyon et al. (2011) state:

> A complexity that arises is that in addition to their role of market expert and arbiter, consultants may have another role in their provision of other

> services to the firm. This suggests the potential to frame compensation recommendations in favour of the CEO—in whose gift repeated business may be dependent—rather than provide arms-length advice (Conyon et al., 2011)

The notions of independence drawn upon for analysing remuneration consultants are neither challenged above, nor are its roots in auditor governance explored. The conflicts of interest and managerial capture perspectives have been unquestioningly supplanted into remuneration governance research. This is arguably not least because independence is 'not readily observable' (Toh, 2016, p.146), prompting academics to draw upon conventional wisdom in opining on issues of independence and objectivity. However, the disproportionate reliance on proxies in the academic study of auditor independence and quality, and the concerns and criticisms, which this has garnered, should give pause to corporate governance researchers.

Auditors as gatekeepers are markedly different from remuneration consultants, most notably for their certification role. In spite of the absence of a certification role, remuneration consultants have become subject to a similar expectations gap [108] as the auditor. The consultant's emplacement within the field of remuneration governance was entirely premised on an information role for the remuneration committee, and not a policing of executive largesse. Yet, in ascending to the remuneration committee-appointed adviser and seeking to retain their relevance in remuneration governance work, remuneration consultants sought independence (in appearance) so that regulators and investors might observe it. In so doing, they are now subject to the same public scrutiny as the auditor and the similar allegations of conflict of interest and managerial capture. Researchers have gone no further in establishing whether these analytical constructs are best suited to evaluating the consultants' independence.

Arguably, the remuneration consultants' independence has more to do with their knowledge of the market, their ability to contextualise pay packages, design

[108] The ICAEW describes the expectations gap as the difference between what some stakeholders believe to be the nature of assurance that results from the audit and the actual purpose of the audit

suitable incentive schemes, and steer remuneration committees through ‘choppy waters’ and uncertain economic times. As Power (2011, p.325) noted:

> ‘Independence and expertise are deeply intertwined qualities, qualities which are iteratively revealed and validated in markets over successive transactions which generate trust in a service. In Jamal and Sunder’s analysis, independence is not reducible to a set of regulatory prohibitions or anything in the mind of the individual which exists before or outside of the market.’

We return once more to the client’s role in validating the consultants’ claim to expertise. Sikka and Wilmott (1995) describe the potential for loss of independence to devalue the material and symbolic value of the auditors’ core area of expertise. Yet, the remuneration consultants have overwhelmingly retained their claims to expertise in the eyes of the remuneration committee- as client, and largely reproduced their relevance to the institutional investors-as consumer. The policing role, which the consultants’ have since absorbed, is premised on reproducing their claims to independence in the eyes of politicians, regulators and institutional investors.

Is it not the case that the ‘litmus test’ for executive pay packages is the shareholder vote at the annual general meeting?

4.9 Future work on gatekeepers’ independence

There are many more puzzles to the remuneration consultants’ independence and expertise. In a statement, which captures several puzzles, a principal at one of the leading consultancies stated the following:

> ‘Being an actuary is fairly serious because you determine how much money goes into the pension scheme and if you advise too much, you bankrupt the employer, and if you advise too little then the pensions won't be payable. Being an accountant, again, you start with audit and it's important that auditing is done properly. It's important that law is done properly or your client is sued and loses money. You're in an environment where your advice matters…

> Rem consulting doesn't matter in the same way.... There isn't the objective reliance on advice that extends beyond the company. If we give bad advice and the CEO gets paid a bit too much money, who loses? Some shareholders? So it's a matter that relatively rich people lose half a percent on the dollar. It's neither here nor there. Whereas if you screw up an audit, that matters. If you screw up an actuarial pension scheme valuation, that matters. If you screw up legally, it matters.'

And yet, with the exception of audit failures, no other issue garners as much public and political attention. Executive pay, especially when considered in contrast to workforce pay, is the most emotive issue currently facing corporate Britain. Undoubtedly, remuneration consultants will continue to the object of media consternation. In which case, it is surprising that remuneration consultant have not actively pursued the social closure afforded to the professions. Is appears instead, that they have relied on their expert status. Yet, it remains to be seen whether this is a sustainable strategy.

In the following chapter, the consultants' expertise, the means by which it is produced and validated is explored in the context of a field-based study within an executive remuneration consultancy. It is in studying their day to day work activities, the

Chapter 5
Remuneration consulting work

5.0 Introduction

Drawing on a participant observation in a leading consultancy and 20 interviews with their remuneration consultants, this chapter presents an analysis of executive remuneration consulting work. There is consensus amongst scholars that remuneration consultants are pay experts (Murphy and Sandino, 2010; Conyon et al., 2011; Bender, 2012; Gallani, 2015), yet little is known about the work that constitutes their expertise, or the ways in which consultants continually reproduce their expertise. Studying the norms, practices and beliefs of executive remuneration consultants is an important area of research, as these actors are central in executive pay design and governance. Focusing on the 'micro-practices' (Hall, 2010) of remuneration consulting work elucidates the day-to-day complexities in not only designing executive pay packages, but also negotiating the acceptance of those packages by other key actors.

The chapter contributes to our understanding of structures, norms and practices within professional service firms. In recent decades, there has been a growing interest in knowledge-intensive firms, organizations and work [109] (KIFOWs) (Alvesson, 1993) and well as the knowledge worker. Yet, there is a 'considerable gap in our knowledge and understanding of the internal workings of contemporary professional service firms' (Suddaby & Greenwood, 2008). Responding to the social and economic dominance of psfs in society, academic interest has turned to the internal workings of these organizations, with particular interest in knowledge creation and inter-professional competition.

This study is also an opportunity to empirically distinguish between terms such as routine and expert, and its related and joint role in reifying the 'knowledge worker.' Social constructivist researchers have importantly challenged the functionalist view of expertise as the technical and objective core of occupational work. Power (1992) noted that expertise was only in part knowledge based, that

[109] Used interchangeably with professional service firm, human asset firm, knowledge based organization (Alvesson, 1993; Morris and Empson, 1998).

‘claims to knowledge (internal validity) can only be mobilised and secured by establishing the social credibility of such claims (external validity).’ This is not suggesting that routine and expert can be conflated, yet, in remuneration consulting, seemingly routine work achieves expert status. At the risk of describing knowledge as ‘everything and nothing’ Alvesson (1994), remuneration consulting work is a rich empirical setting in which to further investigate an occupation’s body of knowledge and the ways in which its collective practices produce and reproduce the consultants’ relevance.

The chapter is organised as follows. Section 5.1 briefly reviews the methods employed in this chapter.[110] Section 5.2 described the field site, and the consulting team structure. Sections 5.3 through to 5.6 describe executive remuneration consulting work. Section 5.7 presents the discussion and conclusion, and Section 5.8 establishes the link to Chapter 6.

5.1 Methods

From March to June 2016, the researcher worked as an analyst in a leading London-based executive remuneration consultancy. The consultancy is situated within a prominent professional service firm. As the researcher sought to experience executive remuneration consulting work as both analyst and academic, the psf and remuneration consulting partners agreed to a participant observation. The participant observation was further informed by semi-structured interviews with 20 members of the consulting team.

The interview protocol entailed four questions, the first of which was simply formulated and asked consultants: ‘what do you do?’ The three additional questions probed consultants’ skillset, training, and the tasks they personally found most rewarding and challenging. The interview transcripts, the researcher’s fieldnotes, and the data analysis and interpretation are the empirical foundation

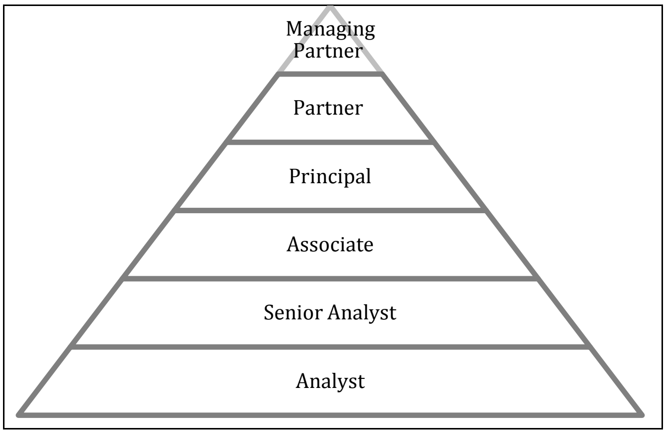
[110] The in-depth and expanded methodological approach and research design is described in Chapter 2

upon which the chapter is constructed. The entire corpus of data collected and analysed for the thesis informs this chapter's conclusions.

5.2 The field site: *ExComp*

In the interest of preserving the anonymity of the consultancy, the pseudonym ExComp[111] is used throughout the chapter. Not dissimilar from several of the UK-based executive remuneration consulting practices, ExComp was initially a standalone practice, which was subsequently acquired by a large professional service firm. Thus the team comprises consultants from the original practice as well as consultant's from the psf's executive reward practice. ExComp adhered to a partnership model, and a simplified illustration of the organizational hierarchy is as follows:

Figure 5.1: Organizational hierarchy at ExComp



Source: Researcher's interpretation

In the chapter, the term consultant is used ubiquitously when describing any member of the executive remuneration consulting team. Where further classification of the consultant's position within the organizational hierarchy is needed, the terms analyst, senior analyst, associate, principal, partner or managing partner is used.

[111] Given the relatively small size of the industry, no details are given in terms of the genesis of ExComp, as it would be immediately recognizable to those in the field.

The field based experience and the subsequent fieldnotes benefitted immensely from participation in weekly staffing meetings, data collection, background pack compilation, pitch pack editing, thought leadership publications, ancillary projects, and importantly an open plan office which meant sitting in proximity to consultants working at various levels and on a multitude of tasks.

Due to the researcher's work restrictions in the United Kingdom, the weekly employment was capped at 20 hours, and as such, strategic choices were made as to the optimal dates and times at the field site. See Appendix B for a calendar of dates and hours spent at ExComp, and Appendix C for the list of interviews with ExComp consultants.[112] Appendix D presents a list of internal documents used as primary data sources in this research. These documents include training and induction materials, client background packs, tender proposals, pay benchmarking decks and market trends updates.

In the subsections, which follow, the descriptive account unfolds in parallel with the organisation's hierarchical levels, in that Section 5.3 describes the analysts' work, Section 5.4 the senior analyst, Section 5.5, the associate, and so forth. While this layout can give the appearance of clear lines of labour division between the hierarchical levels, this is neither the case, nor the intention. There is overlap in tasks between adjacent hierarchical levels. Thus, the tasks described in each subsection are largely carried out by a particular level, but not exclusively.

5.3 Analyst work

5.3.1. Analyst recruitment

As established in Chapter 3, there was no academic knowledge, which preceded entry into the field of remuneration consulting and no accreditation programmes once a consultant embarked upon their career. While ExComp valued quantitative, analytical and reasoning skills in candidates; there was no single degree path, which was explicitly 'required' although arguably some paths were

[112] These interviews are a subset of the 45 interviews conducted across executive remuneration consultants, and these 45 interviews are furthermore a subset of the 60 interviews conducted for the thesis.

valued over others. At ExComp, recent university graduates typically staffed the entry-level position. ExComp's founding partners had backgrounds in strategy consulting, and were graduates of elite universities. As one analyst recalled, ExComp 'tended to aim their recruitment efforts at Oxford and Cambridge as a whole.' Their recruitment process targeted graduates from these and similar institutions, as well as candidates who demonstrated strong numerical and analytical skills.

Prior to acquisition, the process of finding suitable candidates relied on recruiters and job adverts with university career services. For analyst positions, recruiters targeted both final year university students and recent university graduates. Reflecting on the interview process, the consultants often described themselves as interested in strategic or management consulting, but also recalled never having heard of executive remuneration consulting prior to a recruiter's call or the career service job posting. Two recollections capture this:

> I was applying for all types of consultancy; boutique, management consultancies… I found (ExComp) through a recruiter and they recommended me for the role based on my mathematical background. I'll be honest, I'd never heard of remuneration consultancy before I started. I just knew of the concept of consultancy.' (Analyst)
>
> 'I got a phone call from a recruiter who had me on their books from when I was applying for internships at University. And they specialized in broader consultancy and banking and all that kind of stuff. And they said, you know, there's this company… they do executive compensation consultancy. You will have never heard of that before. No one's ever heard of that before. If we sent you some materials, would you be interested in applying? They sent me a brochure and I thought it sounded really interesting. It was a lot like my microeconomics module at Uni.' (Associate)

As this associate further described, her microeconomics course included topics on imperfect information and how to motivate people in principal-agent problems. For another consultant, his interest was piqued while reviewing newspaper articles in preparation for the first round telephone interview. The articles covered the 2012 AGM season, which was a particularly active shareholding season. Those graduates with political and economics backgrounds were often attracted to executive remuneration consulting because of the public policy interest, or the incentive dynamics which arose from the agency problem. Some candidates were also drawn to ExComp because it was seen to be niche, enabling recruits to build specialist knowledge. It was appealing to recruits who ‘didn't just want to start (a) rotation scheme where you become number X out of 1,000 graduates.’

Hiring typically occurred at ExComp on an as needed basis rather than as part of an annual cycle. Following the initial phone interview, candidates underwent several rounds of in person interviews with the principals and partners of the practice. This was an opportunity to gauge the candidate’s fit with all the senior members of the consultancy, which in a boutique firm setting, was seen to be critically important. Following their acquisition by the psf, ExComp sought to maintain their recruitment process.

For the psf, the hiring process for new starters in the various business lines was mostly formalised. Due to the prominence and status of professional service firms as one of the most desirable graduate job destinations, it was incumbent on an applicant to visit the firm’s website, and apply for their preferred position; in this case remuneration or reward consulting. Once applicants had completed the online application form, the firm contacted a subset of the applicants for an interview. If the candidate was successful at the interview stage, they were then invited to an ‘assessment day’ at the firm, which comprised the verbal and numerical tests, partner interview, a group exercise, and a case study for which the candidate was asked to present their thought process for resolving the issues in the case. If a candidate was successful in the assessment centre, an offer was made for the position of analyst.[113]

ExComp resisted transitioning to the psf hiring model. The first analyst hired onto the team after ExComp’s acquisition underwent several rounds of interviews, was hired off the annual cycle unlike analysts hired through the established psf graduate hiring process. As the newest team member recalled:

[113] Some firms used the title Associate in place of Analyst for the same entry-level position.

> 'It was quite hard in the beginning, because I wasn't sure… "Am I joining (the psf), am I joining (ExComp)?" When I started, I felt like I was joining (ExComp), and then when I came into the office and all the HR kind of admin stuff was (the psf), I was like "Oh." A little bit of an identity crisis, I think.'

From recruitment, the 'identity crisis' deepened as the analyst was introduced to the difference between executive remuneration consulting and broad-based remuneration consulting. This chasm between executive remuneration and broad-based remuneration would deepen the further the consultants progressed in their career.

5.3.2 Analyst Training

Analyst work centred on data collection, data analysis and data manipulation. The analyst was 'working with Excel every day', as well as Microsoft's Power Point, Word, Access, Thompson Reuters EIKON (formerly Datastream), and Bloomberg.[114] It was expected that the analyst would develop a 'fundamental understanding' of how pay was structured in the United Kingdom and typically, within British public companies. As one analyst explained, he needed 'to understand the salary, bonus, LTIP model and how that works and what the different elements are designed to do'. Furthermore, he was expected to understand 'market practice in each of those areas' with particular attention to 'quantum[115], performance measures[116], and time horizons.'[117]

The consultants often described their training as 'an apprenticeship model', 'learning by doing' and 'ad hoc training'. As one analyst commented, 'I feel we are calling it training…it's more a process of asking questions.' The

[114] The latter two external databases were typically used in market trends and benchmarking work, where historical performance data was required for a client's comparator firms.
[115] The quantum referred to the total pound value received by the executive
[116] This will be described in detail later in the chapter. Examples include total shareholder performance as the metric by which the individual's performance is assessed, and then measured against a target level in order to determine to incentive payout.
[117] Time horizons has multiple meanings; it can mean the period over which performance is measured, or the period until the payment of the incentive occurs.

apprenticeship model was also well suited to the senior members of the team who identified strongly with the apprenticeship models which they had been subject to in their accountancy, legal and actuarial pasts. However, formal training was beginning to take root, especially as the hiring cycle synchronised with the psf annual intake cycle.[118] As ExComp sat within the broader human resources (or Talent) group, their analysts were subject to companywide training.

The ExComp training comprised a two-week induction of scheduled task-based sessions. Senior analysts mostly facilitated the sessions, with the odd session facilitated by an associate or principal. During their first few weeks of work, analysts scheduled to meet the senior members of the team in 15-30 minute time slots; a practice common within psf consulting teams.

It was the case that in some situations, a 'new-starter' may not be inducted via the formal training. This occurred when an analyst started during a particularly busy time in the annual cycle. In situations such as this, the new-starter's introductory training is entirely ad hoc in style, relied substantially on observing other analysts at work and asking questions. Once another official induction is scheduled for new starters, the analyst is invited to join in for a refresher.

5.3.3 Analyst induction

The Induction focused on building 'foundational' knowledge for the analysts. The introductory session was itemised as follows: *Elements of Remuneration, Overview of incentives* and *Introduction to DRRs* (Induction Schedule, April 2016). The *Elements of Remuneration* session described base salary, short-term incentives and long-term incentives, and definitions and distinctions between terms such as total cash, total direct and total remuneration, to name a few. The overview of incentives introduced the new starters to the consultancy's philosophy underlying incentives. Incentives fell into two main categories, short-

[118] This push toward a formal induction schedule was also due to the wave of governance and regulatory changes over the previous decade, which led to an increase in regulatory and governance requirements and more complex incentive structures.

term incentives (1 year or less) and long-term incentives (3 years or more). The consultancy's incentive philosophy was importantly shaped by the principles of the Managing Partner. At ExComp, the Managing Partner steadfastly believed in maximising shareholder value as this was seen to maximise stakeholder value. In his understanding of value-based incentives, 'there is no conflict between shareholder value and stake holder value'. He stated:

> '…in the long run shareholder value is maximized by doing all the things that maximize value or create value…for all stake holders. In order for a company to be successful in the very long term, it needs to be attractive to potential employees, it needs to be attractive to potential customers, it needs to retain employees and customers…
>
> I believe that value based incentives are a very powerful form of competitive advantage for companies. I think very, very few companies treat their remunerations in that way.'

The philosophy to which a team adhered shaped both the number and type of performance measures selected, and the targets applied to the executive. At ExComp, their philosophy found a natural fit with the balanced scorecard and more robust stretch targets. Target setting work is described in further detail later in the chapter.

The final segment of the introductory session shed light on the Directors' Remuneration Report (Report). The Report was the central platform of communication with the client's shareholding community, the media and the public. Companies and their advisors largely met the Report's regulatory requirements. Since the DRRR's inception, the Report had become much more than a disclosure mechanism and/or compliance task. It had emerged as a marketing tool, through which advisors could demonstrate innovativeness in incentive design and clarity in communicating critical information to shareholders. The Report was a symbol of effective remuneration design and governance, so much so that PwC had established an annual industry level award recognising leading remuneration reports. During the field study, the researcher was tasked with identifying outstanding examples of disclosure from FTSE Company DRRs. Using PwC's best practice in reporting criteria, helped narrow down examples, which were then compiled into a PowerPoint deck and circulated to the entire team.

The Induction also included a *Jargon buster* session, which introduced analysts to common language and terms used in the field. Remuneration consulting, like many occupational fields, is littered with acronyms and abbreviations, which are used by consultants in their day-to-day work.

Table 5.1: Common terms used in remuneration consulting work

RemCo	Remuneration Committee
EPS	Earnings per share
TSR	Total Shareholder Return
PSP	Performance Share Plan
L-Tip	Long term incentive plan
TCC	**Total cash compensation**. If past looking, then salary plus annual bonus, since the bonus is now known. When calculating the total cash compensation is salary plus "target" annual bonus (where "target" is disclosed) or otherwise salary plus half the maximum bonus opportunity (where maximum is disclosed), or salary plus the average bonus as a % of salary paid over the last 3 years).
TDC	**Total direct compensation** is total cash plus the fair value of long-term incentive, or TCC plus executive share option and performance share plans. Fair value is based on the 'normal' maximum annual grant, discounted for performance conditions and forfeiture risk. Options are valued using an adjusted Black Scholes model.

The second part of the table above, detailing the definition of total cash compensation and total direct compensation would give the analyst early insight into the informational-dependency of their work, in the sense that only where information was available, were certain calculations possible. As scientific as pay calculations are assumed to be, there was judgment required in constructing the formulae. This judgment is described in detail in Chapter 6, when studying pay benchmarking practices.

Following this introductory session, the Induction focused on building key technical skills, principally teaching analysts to extract the necessary data points from the remuneration reports and inputting into ExComp's in-house database, or similarly extracting data from licensed databases (such as EIKON). Data extraction was the critical first step for the trends analysis, target setting and benchmarking work, which would follow.

5.3.4 Data Collection

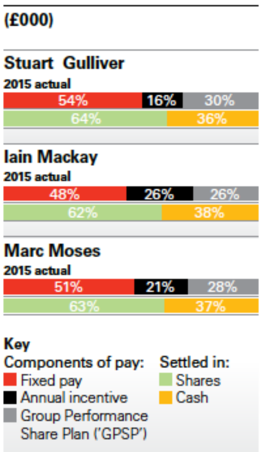
The task of locating executive pay data, extracting the data and inputting it into the in-house database started with analysts opening PDFs of company annual reports, locating the DRR, and then scrolling through the disclosures in order to identify and extract the key data points. The fiscal year-end of FTSE 350 companies substantially affected the timing and pace of data collection. The majority of these fiscal year-ends occurred on 31 December 2015, and the companies' annual reports were subsequently released in the first quarter of 2016, resulting in April and May being crucial data collection months for the analysts. During this period, analysts developed a strong understanding of the layout of company's annual reports and the directors' remuneration report.

The key quantified data points included salary, annual bonus, LTIP, pension and benefits. The process of data collection had been substantially simplified by the consolidation of pay data in the Single Figure Table.[119] The single figure table (See example below of HSBC's 2015 Single Figure Table) considerably reduced the time analysts spent extracting pay numbers from the DRR.

[119] In 2013, BIS regulatory changes required that public companies publish a single figure of remuneration for executive directors.

Figure 5.2: The Single Figure Table

Single figure of remuneration for our executive Directors



For full details of our Directors' pay and performance for 2015, see the Directors' Remuneration Report on page 285.

How much our executive Directors earned in 2015 (£000)

	Douglas Flint Group Chairman		Stuart Gulliver Group Chief Executive		Iain Mackay Group Finance Director		Marc Moses Group Chief Risk Officer	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Fixed pay								
Base salary	**1,500**	1,500	**1,250**	1,250	**700**	700	**700**	700
Fixed pay allowance	**–**	–	**1,700**	1,700	**950**	950	**950**	950
Pension	**750**	750	**625**	625	**350**	350	**350**	350
Total fixed pay	**2,250**	2,250	**3,575**	3,575	**2,000**	2,000	**2,000**	2,000
Variable pay								
Annual incentive	**–**	–	**1,072**	1,290	**1,068**	867	**827**	1,033
GPSP	**–**	–	**1,969**	2,112	**1,101**	1,131	**1,101**	1,131
Total variable pay	**–**	–	**3,041**	3,402	**2,169**	1,998	**1,928**	2,164
Total fixed and variable pay	**2,250**	2,250	**6,616**	6,977	**4,169**	3,998	**3,928**	4,164
Benefits	**151**	136	**662**	589	**54**	43	**6**	6
Non-taxable benefits	**95**	105	**53**	53	**28**	28	**29**	33
Notional return on deferred cash	**–**	41	**9**	–	**5**	11	**5**	36
Total single figure of remuneration	**2,496**	2,532	**7,340**	7,619	**4,256**	4,080	**3,968**	4,239

Source: HSBC Annual Report 2015

Beyond the data summarised in the Single Figure Table, the analysts also had to collect information on the performance measures and targets, information which was typically presented in narrative form. It was the pay figures in tandem with the details justifying or explaining incentive choices which gave the consultants a sense of 'what's normal, what looks different, what's interesting over a number of years' in executive pay levels and incentive design.

The data collection tasks although mundane and repetitive, remained central to the analyst's appreciation of the various incentive structures used across FTSE companies. As one analyst recalled, the data collection task meant 'I really understood what was going on.' The exposure to the data created a sense of what was normal, and also enabled analysts to identify 'if there's an error somewhere,' or whether there was something interesting or unusual.

The Single Figure Table and the disclosed performance measures and targets concealed the highly negotiated process of setting pay and more contentiously, the awarding of incentive pay. These processes within executive pay design and determination were revealed in the other work activities in which the consultants engaged, starting with the proprietary databases and data analysis. Whereas the

DRR largely concealed the negotiated processes, in-house proprietary databases shed light on them.

Data accuracy

Data accuracy was seen as critical. In order to ensure the accuracy of data entries in the in-house database, a peer review system was established. A second verification process was also in place where senior analysts and the database manager carried out a final check of the data entries. Entering the pay details accurately was seen to be imperative as it was the cornerstone of market trends analysis, benchmarking exercises, target setting work and ultimately pay level recommendations. It was detrimental to the credibility of the team if a client identified an error in the data or the analysis.

Data collection was also the first step for tasks yet to come. The numbers inputted and extracted from the database were rarely presented 'just cold.' The data points were essential for compiling into market trends analysis, in pay benchmarking and target setting tasks. As the client's pay strategy is both a function of the specific business context and the broader patterns in pay design, analyst training centres on knowing the broader patterns in pay for FTSE 100 and FTSE 250 firms. Concurrently, the analysts are being trained to analyse subsets of the market, namely sectors, as it is often these sectors, which are used in the peer or comparator firm group.

Proprietary databases

While data for executive directors' remuneration for public companies was publicly available, data for private company executives and below board executives of all companies was less easily accessible. Furthermore, executive directorships often only extended to a handful of executive roles, namely the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), and depending on the size and complexity of the company and sector in which it operated, may also include the Chief Information Officer (CIO) or the Chief Operating Officer (COO). The Executive Committee (or ExCo) which strategically steered the company operated 'one level below' the board. The pay data for these executives as well as executives 'two levels below' were typically stored in the human resource data files of the companies. It was this data, which was considered proprietary to the remuneration consultancies that collected it. ExComp and their competitors could either build proprietary databases with below board data, or purchase below board data from a competing firm.

The broader Talent Group of the psf maintained an in-house database, which stored global pay data. The data collection and management was 'off-shored' to teams in Poland and India. This database served all of the psf's global offices. However, it did not store below board executive pay data for British public companies at the level of detail, which was needed for the survey product that ExComp needed to generate, or the follow-on benchmarking analysis and incentive design work requested by clients.

Below board executive incentive design had grown substantially since the early 2000s, in line with the increased interest from British companies in reward management. Incentive design work for below board executives was both an interesting area of work for consultants, and more lucrative that the governance work for board level executives.

The task of populating the database required that consultants search client folders for current pay data for below board executives in British companies. In need of additional staffing, populating this database was a key task of the researcher's internship.

The client folders were the first 'port of call' as these were meant to include the company's payroll files. Wading through client pay data spreadsheets, a similar trend emerged; client data was often dated, messy, and incongruent. The data should, in theory, reflect the most recent payroll in order to be deemed 'current'. However, with few files reflecting 2016 pay data, the database manager was approached to offer further guidance. Initially, the decision was made to include data 'no more than 18 months old' as 'current.' Yet, he later reconsidered and determined that no data prior to January 2015 should be included in the database. The time window for ‘current’ was established as January 2015 to April 2016.

Where the client’s pay data was older than January 2015, the ExComp’s lead partner or principal for the client engagement was asked to approach the client – typically the HRD - to request ‘current’ data. The principal or partner was often hesitant to make this request especially if benchmarking and incentive design work was not being carried out. This was despite the fact that the terms and conditions of the client engagement included a clause allowing the consultancy to use anonymised client data in their survey results.

Another impediment to collecting the relevant data was that pay data for senior levels - especially levels equal to or more senior to the HRD - were unlikely to be included in the HRD’s payroll, which was often the source of data in ExComp’s client folders. Where senior level pay data was available in the client data, then it was often unclear whether the long term incentives were at fair value, policy, or actual. In this instance as well, the data manager decided it was materially inconsequential to separate the varying LTIP valuations.

ExComp’s senior consultants, cognizant of the choices made in populating the proprietary database, remained committed to maintaining the in-house database rather than purchasing survey data from competitor firms. At least with the in-house database, the rigour of the discretionary choices would be known.

5.3.5 Data Analysis

> Data is the foundation for everything we do. You can't just go to a client, and we have this on a regular basis. You will talk to someone and you will say, "Well, from our experience and what we've seen we can tell you that this is more prevalent." They will go, "Great. Give me a number to that." Everything always goes back to numbers. They want to know how many companies do it, how often they do it…’

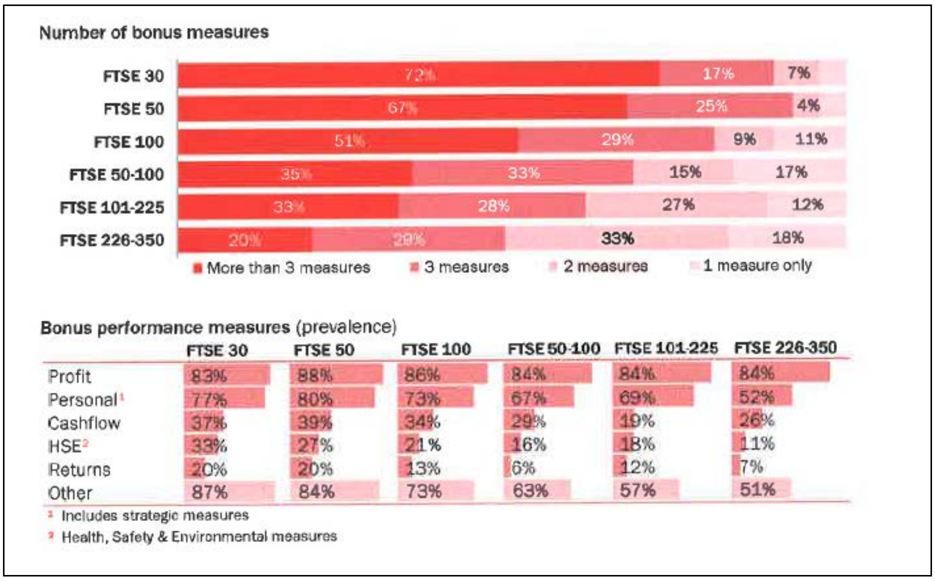
The central data analysis tasks upon which consultants relied on the in-house databases were market trends analysis, target setting and pay benchmarking.

Market Trends Analysis

It was common for ExComp and their competitors to produce annual, periodical or bespoke pay trends analyses for clients and potential clients. ExComp's annual Board Remuneration Handbook' summarised the trends in the various pay elements, which included Salaries, Bonuses, LTIs, Clawback, Pensions, Ownership and NED fees.

The Handbook featured summary statistics for FTSE 100 and FTSE 250 firms. It gave the reader 'at a glance', a sense of key shifts and features of CEO and CFO pay. For example, the salaries section detailed the percentage increase in CEO pay for upper quartile, median and lower quartile pay, while the bonus section detailed the average number of performance measures used by sector (See Figure 5.3 below).

Figure 5.3: Example of Market Trends Analysis



Pay Benchmarking

Executive pay benchmarking occurs when the client asks the remuneration consultant to position executive or non-executive directors' pay against a group of peers. Pay benchmarking is typically performed annually, enabling the client to ascertain whether their pay levels and pay elements are competitive with 'market practice' and also fit for purpose with respect to the company's pay philosophy.

The peer group against which the client's roles are compared is selected based on its similarity in size and complexity to the client firm. Thus size and sector data are needed for the determination of the peer group. Following the selection of the peer group, data is extracted from the database on the various elements of the remuneration package for the comparator roles to which the client is being benchmarked. The client has a pay philosophy as to whether it pays its executives at the median or upper quartile. If the pay falls below the desired quartile, the consultant will consider a host of factors before suggesting an increase in pay. This is because benchmarking is seen as a guide in pay setting and consultants would not use it as the sole basis by which the pay package is increased. Furthermore, institutional investors had no appetite for pay benchmark results justifying executive pay increases.

Pay benchmarking practices have become implicated in the upward ratchet of pay, and is investigated in depth in Chapter 6.

Target Setting

Target setting was described in the internal training documents as the process by which consultants select appropriate performance measures and targets for either short term incentive schemes (annual bonus), long term incentive schemes (typically performance share plans, stock option plans, deferred annual bonus with performance based company matching), or both. Target setting work operated at the intersection of three areas of concerns; institutional investor demands for pay linked to performance, strategic remuneration goals, and the individual corporate executive's risk-reward tolerance.

From the early 1990s, institutional investor representative bodies raised concerns with respect to windfall gains from stock option vesting; at which point they released guidance on the need for companies to introduce challenging performance conditions. The introduction of performance share plans in response to investor concerns subsequently led to a proliferation of ‘total shareholder return’ (TSR) and ‘earnings per share’ (EPS) as the most commonly used performance metrics in long term incentive systems for British quoted companies. While LTIPs were initially of central focus for institutional investors, short-term incentives have also been the subject of public and political ire.

While the DRRR (2002) provided guidance on LTIP performance measure disclosure, the disclosure of performance measures and targets for short-term incentives were unregulated. Annual bonus disclosures had not been included in the 2002 regulations, but included from 2013. The issue, which continued to plague investors, was the use of discretion by the RemCo in awarding incentive payouts.

In those companies, which deemed incentive systems as a strategic tool, remuneration was given far greater attention. Such attention manifested in a few ways; for example, the HRD may sit on the Executive Committee, the HRD is also more likely to be involved in the selection of the external advisor. The intricacies of incentive design are unlikely to be outsourced to consultants and rather rest with the internal HR function. The HRD or HoR facilitate communications with large institutional investors, and accompanies the remuneration committee chair to meetings with key investors. The third area of concern when setting targets is the executive’s acceptance or resistance of the target.

Target setting training

The ‘Target-setting’ session addressed the theory behind target setting, and then demonstrated the ‘pulling’ of data from the database for target setting analysis. The task of selecting performance measures and determining the minimum, maximum and threshold target relied upon familiarity with the data, and what was considered ‘normal.’ The training session directed analysts to look within the sector first, as sector-appropriate targets were already institutionalised in practice.
During an observed induction session, three junior analysts sat in on select sections for a refresher, and to provide support to the session’s facilitator. All

attended with laptops in hand. The facilitator projected his desktop screen onto the conference room screen in order to walk his audience through the task. The task was to retrieve comparator firm data from Datastream, Bloomberg and the in-house database in order to compare a client's pay data relative to 5 year TSR with comparator firms' pay data relative to the comparator firms 5 year TSR. The 'quirks' of the different databases were described to the new-starter, including actions that might cause a database to 'break', the optimal number of peer firms for which to retrieve data at a given time, or the typical length of time taken for data to be retrieved from the database.

Methodological questions were answered with ease by the facilitator or junior analysts. For example, the new-starter questioned why 5 years of TSR data was used. One of the analysts quickly commented that 5 years vis-à-vis 3 years reduced volatility. However, when questions were raised as to specific coding language used in the data retrieval formulae; these were often met with a shrug or dismissal. The technical architecture of the databases was trusted implicitly, and these coding questions often remained unanswered. Thus, the Excel formulae described during the training (for example, =getsinglefigure(FC, "TE",0,3,"SF","GBP",2,FALSE)) was not unpacked, rather presented as formulae to be learnt by rote. The analysts' skills needed for their work extended to the data input, extraction and analysis; but not the underlying mechanics by which the database retrieved the data.

Data collection played a key role in the performance measures selected. From reading annual reports, and collecting the data that was used daily, the analyst started to 'slowly see patterns emerging.' For example, it became common knowledge to the analyst that the 'media industry typically used revenue, mining used total shareholder return, retail used profit'.

5.3.6 Communication skills

Although the final sessions of the induction training focused on incentive plan implementation and communication with shareholders and clients, the analysts would not be engaged in these tasks during the first year on the job, often longer. Given the central role of the client, and the importance of managing the client's impression of the team's competence and credibility, junior team members did not attend client meetings until they had progressed to either senior analyst or associate. As one senior analyst recounted 'it usually takes a while for junior people to start going to client meetings. It's usually a matter of at least three years.' When junior members of the team were taken to client meetings, they initially attended 'just to take notes'. The rationale being that the senior analyst would gain 'an understanding of how the client meeting works' and become 'familiar with that set up so that when it actually comes to them presenting on something, that's one less unknown for them to overcome.' This type of client prep was also achieved by allowing junior and senior analysts to sit in on client calls to experience the types of questions asked and the responses given by the team. Associates, principals or partners facilitated liaising with key institutional investors.

5.3.7 Establishing Norms

Elite Identity

There were two key ways in which ExComp's consultants differentiated themselves. First, the executive remuneration consultants perceived themselves differently from the broad-based remuneration, or broader talent/human resources consultants. The ExComp junior team members (analysts and senior analysts) often 'lunched' together in their office building's cafeteria. It was during one of the lunches that ExComp's analysts described their practice as more so strategy consulting as opposed to human resources consulting. Part of the distinction stemmed from advising the board, the publicity surrounding executive pay, and the complexity of executive pay, which in turn required technical training.

ExComp consultants also distinguished themselves from consultants in competing consultancies. There was a commonly held belief within the team that ExComp analysts with 12 months on the job experience were equivalent to 18 months' training at a competing firm. This belief was reinforced when analysts 'jumped ship' for a competing firm. Prior to ExComp's acquisition, analysts seldom left for competitors, however, when they did, it was often in search of more diverse work experiences. As one former ExComp analyst described:

> '(ExComp) has 25 consultants. It's an extremely small practice, which is what I wanted when I first looked to find somewhere to start my career. I went to Oxford, collegiate culture and my school was small so I wanted to continue that theme of somewhere small where you can establish yourself.
>
> I think when I decided to move, I wanted to find somewhere with maybe just a bit more opportunity. (The psf), as you know, it's first and foremost an accountancy firm. It has hundreds of different areas that it works in. There's a lot of cross service line collaboration. There's just enormous scope for opportunity. That was my main rationale.
>
> The other one was that I, for some reason, thought it would be a good idea to do some sort of professional qualification. I'm currently doing the ACA.

This analyst was atypical in that consultants at ExComp seldom expressed interest in pursuing professional qualifications. Executive remuneration consulting, although narrow in scope, was seen to operate within the scope of management consulting or strategy consulting. ExComp's junior consultants were more likely to express interest in Masters in Business Administration (MBA) programmes, than professional qualifications.

Apprenticeship

While analyst-level data collection tasks were repetitive and mundane work, the analysts understood their work activities within the broader collective practice of remuneration consulting. Analysts were staffed on client engagement teams shortly after starting with the firm. They were thus exposed to the anecdotes, experience and outcomes of senior level work tasks. As an analyst recalled, 'there's all these different layers that make it a bit more interesting', such that even though they were not directly carrying out what might be considered more interesting work, it importantly lay in their future.

Learning-by-doing or this apprenticeship model was the centre of the analysts' indoctrination into remuneration consulting work. As one analyst described, 'no matter how extensive you try to train someone, and however much effort you put into it, you will never cover all the scenarios that you might encounter.' Asking questions, observing work and practice-by-doing were the essential skills, which aided in analyst progression.

5.4 Progression to senior analyst

It was typical for analysts to move into a senior analyst position after approximately eighteen to twenty four months. Moving into a senior analyst role meant that the task distribution changed, with more data analysis work vis-a-vis data collection and data extraction from the database. It is worth noting that the dichotomy between data collection and data analysis was not always clear. As a senior analyst recalled:

> 'The biggest part of my time is spent analysing the data. I think it's probably equally split between various pieces of analysis. Number one would be the benchmarking, so that involves collecting data for a list of companies, putting it into the database, getting it out, processing it, checking it, doing some quick quartile analysis, and then putting it into a pack.'

In this instance, the work of data collection was subsumed in data analysis work. Yet, in other situations, it was common for senior analysts to delegate data collection tasks to junior analysts. Delegating data collection tasks to junior analysts depended on the size of the engagement team, which depended on the size of the client (e.g. FTSE 100 teams demanded more resources) or the demands of the engagement (e.g. incentive design work was far more resource intensive than benchmarking work). Where data collection and extraction from the database was delegated, the senior analyst typically verified parts of the data. This check occurred either before or after the data analysis work. At times, it was through the process of analysis, when the statistical outputs were unexpected by the senior analyst, that they were prompted to return to the data, the assumptions, or both.

Consultants' branching out into more complicated things like IFRS2 valuations and TSR reports'; tasks which one senior analyst described as requiring a 'certain amount of knowledge' also marked the level of senior analyst. IFRS2 valuations were considered complex, technical work given that no two share-based arrangements were exactly the same.

While IFRS2 valuations and TSR reports was seen to rely on technical knowledge, senior analysts also needed to build client-specific knowledge. Within the category of ‘client specific knowledge’, there were elements, which were considered to be both technical and non-technical. Non-technical knowledge might entail the analysts’ ability to use client specific language or jargon. As one senior analyst stated, there are ‘no specific qualifications for this job, but you have to understand companies, company accounts, economics, the way the city works, capitalizations… you can't be a consultant and not know what an IPO is, or a NOMAD[120].’ Conversing competently with clients was seen to be critically important for future client interactions.

In preparation for serving niche clients, there were opportunities to enrol in training programmes. One senior analyst described cherry picking from external training courses, attending a Financial Reporting Council (FRC) training programme in preparation for serving a financial services client. The senior analyst described the sessions as teaching them ‘how to read financial accounts and things like that…and also told you a bit about the kind of regulation around reporting.’

In tandem with this, senior analysts were writing papers either internally for clients on specific topics, or for publication in their consultancy’s periodicals. As one senior consultant recalled:

> ‘You can almost time it to the day when you're going to get requests in. They're very much just repeats of the previous years. There's a couple of clients where you know in June you're going to get your benchmarking paper to write. Then August, there'll be a market update on the AGM season and all of that. Those are a bit more routine.’

While some writing projects were routine, others were opportunities for creativity, either in the content or in the presentation of data analysis.

[120] A company that has been approved as a nominated advisor for the Alternative Investment Market (AIM), by the London Stock Exchange.

5.4.1 Background packs

In line with new remuneration governance best practice, it was increasingly common for FTSE 350 remuneration committees to retender remuneration advisory appointments every three to four years. Request for proposals were typically sent to the leading consultancies. Once received by ExComp, an engagement team was convened during the weekly team meeting, based on the availability of the team members, and sector expertise of the leading principal or partner. The potential client's request for proposals varied, for example, some were highly detailed, leaving the consulting team little room for new incentive design, or alternatively, an RfP might indicate that the company was revamping its incentive structures, and seeking innovative ideas. As incentive design was overwhelmingly cited as one of the more interesting work activities, the latter scenario was much preferred.

The background pack typically included the 'key figures' detailed in the annual report, the three financial statements, recent news articles (typically less than 3 months), analyst reports, proxy advisor reports (if available) and information garnered from trolling the company website. It was the compilation of these details, which enabled the team to construct an image of the client's strategic direction and current pay strategy.

It was also at the level of senior analyst that the client's business context became central to their work. One senior analyst stuck a note to his computer screen as a daily reminder that the client's business context (and business strategy) must feature in all the analysis and pay design work he was tasked with. Other senior analysts similarly referenced the importance of situating the numbers within a 'broader context' or 'the bigger picture.' Once the analyst had a sense of the company's strategy, the pitch deck was created, and checked by a senior member of the team.

5.5 Associates

Associates operated at the nexus of technical and client-engagement work. Although associates carried out far fewer technical tasks, they were often responsible for 'peer reviewing' the analytical work done by analysts and senior analysts. As one associate recalled of her work as an analyst, 'I was very technical and I wasn't very client facing.' As an associate, the consultants were very client facing and not very technical, with an increasing focus on the stakeholder management. Their technical skill-set dulled as new client skills were sharpened.

5.5.1 Client work

The analyst and senior analyst work tasks had been in service of the client but not in interaction with the client. Interacting with the client directly was a central feature of associate level work, and the ability to couple market trends analysis with the client's strategic focus was integral to their success:

> 'Everything is very high level. Everything is to do with strategy with people that lead those companies, with what they want to develop with how they want their companies to grow. It's quite top level. It has a big impact. You're discussing big issues with important people. Often times you will have access to confidential information about their strategy, their plans of how they want to develop themselves so they can motivate their people to achieve that.'

Associates straddled the two main dimensions of remuneration consulting work, in that they managed the data analysis work and client management work. Associates often likened to role to project managers as they delegated the data analysis tasks to the analyst level, checked outputs and incorporated the analysis into the product for the client:

> 'It's managing other people. It's explaining to the analyst what you need them to do… For example, we're going to do benchmarking for these 20 roles, I tell the analyst what they needed to do, I checked their matches they came out with, they give me the data back, I check the data, and then I create a report talking about the findings and how they relate to the client.'

This was importantly the level at which consultants started interacting directly with the client, usually the company secretary, HRD or HoR. As an associate recalled:

> 'You knew you were progressing because the clients weren't phoning the boss anymore, they were phoning you and asking you the questions and you were doing it and just kind of getting it signed off.'

Another associate described his work in relation to the client as follows:

> 'You need to be on top of things and be responsible to people. I think as you move up, it's the ability to carry yourself and express yourself within the meeting…
>
> ...it's hard to break into our job if you don't have the cultural polish'

The 'cultural polish' described here is the professionalism, which a consultant needed to thrive in interactions with an elite and demanding client. One of the challenges faced in the hierarchical progression of the consultant was that their data analytics - the 'hard' skills - were often easier to identify within candidates or build up through the apprenticeship mode. However, it was the 'EQ'[121] was importantly tested in client interactions and within the boardroom. Thus, the principal or partner was helping to shape the associates' client communications. Associates would approach the partners to solicit feedback as to whether they had struck the right tone. As one associate described, 'often I'll get feedback saying, "This is too aggressive, or this is too passive, or you need to make this a bit more like this way".'

Associates were also likely to be interviewing the client to gauge their perspectives on pay strategy. While the background pack drew together all public sources of information on the client, incentive design decisions were importantly shaped by the views of the HRD, HoR, executive directors, company chairman and remuneration committee chair and members. Once ExComp won a pitch,

[121] 'Emotional quotient' was a term used by one principal to describe the soft skills. While the etymology of this term is unknown to the researcher, it describes the emotional intelligence exercised by an individual in interactions with others.

associates scheduled interviews with some or all of these roles. As described by a consultant, questions included:

> 'Could you describe the current arrangements? …from your perspective, what works for you and what don't you like about it? What do you think is motivating for your team and what do you think isn't? How do you define success for the company over the next 3-5 years?'

As the consultants often attested, each client was different. And a fundamental difference was whether pay was seen to be a strategic tool of the firm or not. In client engagements in which pay strategy was seen to be a competitive advantage, consultants felt they had a greater opportunity for designing incentive structures, which responded to the internal mechanics of the firm, as opposed to box-checking the demands of institutional investors.

One associate described the process of designing a new incentive system as follows:

> 'The place that you normally start in that is saying "this is what you've currently got." "This is what you say in your annual reports and our interviews with you is your strategic goals, you know, what your philosophy on pay is. And these are the areas where they don't currently match." And then we'll say "here are some alternative options." We'll normally give at least a few more alternatives or at least give some pros and cons for different approaches, and then we'll say, you know, you could do A, B, or C. We really recommend B because of X, Y, and Z. But if you don't like A, B, and C about this option, then these are some of the alternative things that you could do.'

The associate had significant insight into the various tasks performed across the entire team. Yet, when the client was deeply concerned about an AGM vote, or troubled about a feature of the incentive design system, then it was the principal or partner with whom they wanted to speak. The client concerns, which intersected with the politicization of executive pay were often well suited to the partner's extensive experience. However, in one example, where a client was unsure of a complex technical aspect of the work, the partner was not best suited to provide the answer as they are removed from the day-to-day technical work. However, this is where the trust, which is emplaced in the chosen adviser comes through.

5.6 Principals/Partners

The principals and partners at ExComp led the engagement teams. It was typical for a principal to lead the consulting team for a FTSE 250 firm, and a partner to lead for a FTSE 100 firm. It was also the principals or partners who sat in on remuneration committee meetings. As a lead partner recalled:

> ‘It's a privilege to be in the boardroom with clients. I've always thought that and still do. For anybody starting out…it's exciting. You're dealing with senior level people, demanding people, people who have high standards, so that's a good professional environment to be in.’

At the partner level of work, the philosophy of incentive design was debated, as well as how this philosophy intersected with governance guidelines and regulations. The partners were continually absorbing shifts in governance and regulation and in turn creating and innovating on new work tasks. What has further confounded the pay design process is that institutional investor groups held different views on long-term incentives, holding periods, and performance criteria. As one partner recalled:

> 'They don't speak with one voice. Even the Investment Association or the NAPF don't speak for all their members. One member wants this...Fidelity wants five-year shareholding...Standard Life likes EPS’

The shareholder vote on remuneration governance and the media attention, which high dissent votes[122] attracted, also contributed to the conformity in pay design. One principal described two types of client reactions to ExComp’s approach to incentive design:

> "Well guys, what you're doing here is very market typical but I'm not sure it's the right thing for your organization." There were some that would kind of hug you and kiss you and be delighted because they'd always wondered why it was done this way, and others who would just get annoyed because, "Well, everybody else does it this way; why are you being so difficult?"

[122] A vote outcome is considered ‘high dissent’ where greater than 20% of the shareholders vote against the remuneration report and policy.

The remuneration committee's tolerance for the reputational effects of institutional investor backlash was often reflected in their pay policy. The pay policy was the boundaries in which the consultants operated. As recounted by an ExComp partner, a risk-averse remuneration committee chair often held the view:

> "Design something simple, vanilla, that won't get us in trouble with shareholders and we will implement it"

The client relied upon the remuneration consultant to navigate the divergent views of institutional investors. The consultants could either operate within the boundaries of governance guidelines or attempt client-specific incentive structures and risk 'no' votes at the AGM. During the 2016 AGM season, the 'no' votes received by BP with respect to its CEO Bob Dudley's pay increase, and the 'no' vote received by Weir Group (believed to be because of its proposed introduction of restricted stock) were discussed at length at ExComp. The BP no vote was less clear and as such, revealed the 'sensemaking' (Weick, 1995) processes used by consultants to interpret, understand and react to the vote outcome. Three explanations were talked about; the lack of independence of BP's remuneration consultant, Gerritt Aronson. This lack of independence was premised on Aronson's sole proprietorship, his exceptionally long tenure as BP's pay consultant,[123] and the fact that he had moved from in-house reward to the role of external adviser. Second, the pay increase was seen as unjustifiable given that shareholders had not received a suitable return on investment given the sharp fall in the price of oil. The third explanation suggested that the remuneration committee, although populated with some of the most respected individuals in corporate Britain, were out of touch with 'reality.' By this, the consultant meant that from their position at the top 1%, the committee members had lost touch with labour inequality in Britain by agreeing such a substantial pay increase.

These accounts were not based on interactions with the investors who voted against BP's report, although arguably investors also enact their own sensemaking. Instead, the consultants conversed about plausible explanations,

[123] Gerritt Aronson had been listed as BP's remuneration adviser since disclosure was first mandated in 2002.

‘infused with the politics of interpretation and conflicting interests and inhabited by people with multiple shifting identities’ (Weick, 1995, p.61).

5.6.1 Shaping client attention

When new governance guidelines were released or politicians or the media referenced, opined or criticised executive pay, these ‘sound bites’ were circulated in a daily electronic mail-out. For example, when the Investment Association’s working group released their draft, the partners ‘all got in a room…and had to brainstorm about what it might mean.’[124] When the governance episode was more enduring or created greater levels of uncertainty amongst remuneration committees, ExComp partners hosted breakfast meetings in which institutional investors (namely their governance analysts), remuneration committee chairs and members, and human resource directors or heads of reward attended. These opportunities for field level dialogue on a range of remuneration related issues, was a means of identifying emergent governance and design preferences, and to road-test novel ideas or solutions generated by ExComp team members.

Absorbing the current rhetoric, discourse or mood on pay design and governance was seen to be central in not only responding to client concerns but shaping client concerns. Given the similarity in the leading consultancies’ methodologies, the availability of executive director pay data, and the regulatory and governance constraints on incentive design, the existing knowledge pool was frequently and persistently being standardised.

Thus, the brainstorming amongst the leading members of the teams created new forms of consciousness for the client-as-audience. For example, proxy adviser Institutional Shareholder Services (ISS) released a white paper detailing three tests for pay for performance alignment in executive remuneration packages for European companies. These tests would form part of the proxy advisor’s AGM vote recommendations, and given the clout of ISS amongst large institutional

[124] Interview with ExComp partner

investors, ExComp was determined to react to the white paper. The three tests were as follows:

Table 5.2 ISS' Pay for Performance Tests

(i) Relative Degree of Alignment (RDA)	This relative measure compares the percentile ranks of a company's CEO pay and TSR performance, relative to an industry-and-size derived comparison group, over a three-year period.
(ii) Multiple of Median (MOM)	This relative measure expresses the prior year's CEO pay as a multiple of the median pay of its comparison group for the same period
(iii) Pay-TSR Alignment (PTA)	This absolute measure compares the trends of the CEO's annual pay and the value of an investment in the company over the prior five-year period.

While the comparison group used by ISS was not made publicly available, remuneration committees or the remuneration consultant could purchase the comparison group used by ISS for £10,000. For ExComp, rather than purchasing the peer group in order to better respond to ISS' proxy advice, the team set out to replicate the ISS methodology, thereby generating the likely peer group for their clients. Once this peer group had been constructed, the ISS methodology was once more replicated in order to reproduce the tests for clients. Initially, these services would be offered to clients at no additional cost. However, eventually, the goal was to monetise this service offering at a price point lower than ISS' £10,000.

Stakeholder management

As ExComp prided itself on robust data analysis, and incentive structures suited to the client's strategic goals, situations in which a client opted for 'market typical' to the detriment of their firm's strategic goals, frustrated the consultants. A second source of frustration for consultants was situations in which clients made incentive design choices in direct contradiction to the consultants' advice, or in contravention to the governance guidelines. As a partner described:

> 'That's one of the frustrations that we have is that you read the DRR and it'll say, "We took advice from them," but they don't say "we completely ignored it".'

The principals and partners were responsible for the tough conversations with clients. These conversations might entail advice that the client's pay benchmarks did not warrant a pay increase, or that introducing a restricted stock plan or applying upward discretion to a bonus payout would likely fail a shareholder vote at the AGM. As one partner described:

> I've got clients quite badly out of a jam where they've been about to do something and they've not told you and you're like, "You can't do that. You're going to be in a world of pain if you do that." They've not told because they know what we say to them.

> The hardest thing is when you've got that conflict and when they're looking at you to solve it or they're going to blame you if it doesn't get solved. I mean I got fired from an appointment about seven, eight years ago. The RemCo Chair said, "I'm shooting the messenger here. Bang, you're dead."

Success or failure for the remuneration consultant was not as ambiguous as found in the related field of management consulting. In management consulting, the client engagement is often shrouded in non-disclosure agreements or the deeply embedded cultural logic of client-consultant confidentiality. As such, the outcome of work is not usually open to public scrutiny, and is also not easily measureable (Alvesson, 2004). For the executive remuneration consultant, however, success can typically be measured by the number of remuneration committee appointments a consultancy attains[125], and failure measured by the magnitude of 'no' votes a client receives on their remuneration policy and (implementation) report at the AGM.

[125] Further, a FTSE 30 firm would appear more prestigious an appointment that a FTSE 100 or 250 appointment. ExComp and the competing consultancies often included in their marketing materials a breakdown of the FTSE 30,50, 100, 250, etc. firms to which advice was given.

Where management consultants, for example, have been accused of selling empty envelopes, power point-slides and management fashion (Engwall & Kipping, 2013), the remuneration consultants' output is not ambiguous. When a company loses the remuneration vote, it is overwhelmingly the case that the remuneration consultancy loses the appointment. Given the high stakes for the consultancy, engaging with institutional investors is critically important to the partners' work. In light of this, one might expect high dissent at an AGM to be anticipated. However, this is often not the case. An in-depth analysis of the shareholder vote and the consultant, institutional investor, and committee dynamic has been carded for future work. This is because further interviews with governance analysts and proxy advisors are imperative for this particular strand of the study. As described earlier, the institutions 'do not speak with one voice', and therefore a critical mass of empirical material must be achieved prior to constructing the narrative.

Within the scope of this chapter's ambitions, remuneration consulting work has been described in detail across the various levels of ExComp's hierarchy. When taken in tandem with chapter 4's analysis of the consultant's tenuous claims to expertise, this chapter analyses the ways in which ExComp produces its relevance in executive pay design and governance. The following section summarises and discusses this in relation to academic discourses on the production of knowledge, expertise, and the role of routine work in expert claims.

5.7 Discussion

Executive remuneration consulting is a collection of norms and practices, centred on pay data analysis, incentive design work and client management. The corpus of data and client knowledge is embodied within an elite and professionalised team, and it is this body of knowledge, accepted by clients, regulators and investors, that reify the consultants' claim to expertise.

The career span of the remuneration consultant, as described in this chapter, progresses in a seemingly unproblematic fashion. Reasonably distinct work activities are associated with particular hierarchical levels. Executive remuneration consulting draws heavily on the professional service firm model, which in turn draws on the training and apprenticeship models used within accounting and law professions. And much like management consulting, remuneration consulting ‘lacks the ‘corpus of abstract knowledge’ (Sharma, 1997) that differentiates and defines a profession.

Scholars have been deeply interested in the unique set of conditions that enable certain work to be considered specialist knowledge and others as commonplace or routine work. Routine work has been seen as a threat to expert claims, with researchers attentive to the *commodification* of knowledge.[126] While researchers are often more interested in how expert or knowledge workers abstract their knowledge in order to secure, reinforce or defend their work jurisdictions, it is argued in this chapter that the routine and highly monotonous tasks of data collection are also integral to the consultants’ body of knowledge. How routine tasks can constitute knowledge and expert claims has not been sufficiently explored in the academic discourse. As Alvesson (1994) noted, ‘it is not unlikely that a large part of the work of KIFOWs is not very complicated’ (p. 1005), which blurs the distinction between 'labour' and 'knowledge' (ibid).

It is on the basis of the data which the consultant importantly negotiates the institutional legitimacy of their knowledge. It is not only in possessing the data which renders their knowledge acceptable to the client, it is the ‘proceduralization’ (Power, 1996) of markets trends analysis and pay benchmarking practice; providing evidence of a client’s pay in comparison to peers which enabled the consultant to achieve relevance in remuneration governance.[127]

[126] The commodification of knowledge is a tendency to reduce knowledge to a routinized and codified product (Suddaby and Greenwood, 2001).
[127] As previously described in chapters 3 and 4, remuneration committees were introduced to provide oversight in executive pay determination, and regulators encouraged the use of external pay data to bolster the committee’s understanding of ‘the going rate.’ The committee in turn latched onto external pay data as a means of justifying pay decisions. Thus, survey data transitioned from its roots in attracting and retaining talent (compensation and benefits) to justifying package (governance).

As there is no accreditation programmes, the ‘weak professionalism’ (Fincham, 2006) of remuneration consulting means that consultants are nowhere near controlling occupational entry. Remuneration consultants possess ‘weak knowledge’ and thus continually face the need to negotiate with the client their status as ‘expert.’ Morris and Empson (1998) observe that ‘weak knowledge’ occupations face distinct challenges. ExComp, operating within the walls of a psf, with remuneration consulting knowledge embodied within their consultants, is ‘simultaneously valuable and high vulnerable (Morris and Empson, 1998). Further, the allegations of the consultants’ role in the upward ratchet of pay have challenged their legitimacy in remuneration governance. Remuneration consultants are only temporally stable.

In need of continually negotiating the legitimacy of their claims to expertise, ExComp pursued four key strategies to support their knowledge claims: (i) they recruit from elite universities, (ii) they have invested heavily in building a strong database and superior data analytics, (iii) they continue to innovate product and service offerings in response to market and governance shifts, and (iv) they appeal to the ideals of professionalism. These four will be discussed in turn.

Elite Identity

Remuneration consultants at ExComp are differentiated by drawing first on the elitism of their academic institution and second on ExComp’s reputation in the market. Management consulting and psfs are known for their selective recruitment procedures (Alvesson & Robertson, 2006). Yet, ExComp proved to be even more selective than this. Not only did they emphasise hiring from elite universities and/or quantitatively and analytically rigorous academic programmes, they also facilitated many more rounds of interviews than was typical of the psf model.

As Alvesson and Robertson (2006) have observed, being tethered to an elite identity promotes self-discipline, which sustains the consultant’s desire to accomplish high standards. The strong technical and analytical skillsets, inculcated from induction and development processes, aid in further differentiating the consultants from their peers in competing firms. It has also been observed in management consulting that those who are highly educated themselves, often willingly incorporate the firm's elitist descriptions as long as they can confirm the reputational claims and through the beliefs of their colleagues (Alvesson & Robertson, 2006). This is very much the case at ExComp where there is an industry wide perception of the analytical prowess of the firm's consultants.

Reliance on methodological rigour

Data - collected, stored and retrieved - from the in-houses databases, underpins remuneration consulting work. It enables the consultants' claim that they 'know' the market. Understanding patterns in pay for FTSE 100 companies or a particular sector, for example gives the consultant a sense of what is normal in the design of incentive schemes. The consultant can make statements about the appropriate performance measures, the acceptable target levels, or the appropriate long-term vehicle (whether performance share plan or deferred stock options, for example). However, these highly repetitive and mundane tasks are pervasive practice across the competing firms.

ExComp is a repository of knowledge through the routines and procedures (Cyert and March, 1963, cf. Morris and Empson, 1998), which have been institutionalized in their day-to-day practices. The methodologies used in data analysis across the competing consultancies are fundamentally the same. Similar to Power's (1992a) observation of the field of brand accounting, there is an objectivity which 'arises when a critical mass of practitioners follow an increasingly institutionalised methodology' (p. 306). The need for objectivity in remuneration consulting work supports the consultants' expert claims.

The pursuit of objective, highly rational practices obscures the judgement required to both collect and analyse data. However, judgment is a necessary dimension of remuneration consulting work, even if it is not actively promoted to the client market. The role of judgement is discussed in section 5.8 which establishes links to chapter 6. Ultimately, the databases and data analytics help to secure an image which appeals to the market (Alvesson and Robertson, 2006). And it is on this basis that ExComp's innovations are accepted by existing clients, and serve in securing new clients.

Innovation

While abstracting knowledge has not been actively pursued either by ExComp partners or the field generally, innovative data analytics are a source of competitive advantage. Hall et al (2015) describe a 'perception of experts as the collectors, compilers and generators of 'decision relevant' information and that these experts strive to direct management attention and resources. Similarly, Morris and Empson (1998) find that psfs manage the client market through the generation and maintenance of demand for its services. In remuneration consulting, shifts in governance and regulation have been the more influential triggers for creating new domains of work, and new opportunities for consultancies to provide innovative solutions to the market.

Thus, pursuing a central role in the discourse through breakfast meetings and NED dinners means that partners can help their clients 'understand issues and trends in certain ways' (Howard-Grenville, 2007). Similarly, Bender (2011) stated, 'consultants do more than reflect the body of knowledge surrounding executive pay: they also help to create it' (p.336). Sustaining their position in corporate governance has relied upon the continual innovation in incentive design and remuneration governance, despite the growing constraints presented by regulators and institutions.

The conformity in pay design which decades of regulation and governance guidelines have precipitated have also undermined the role of the consultant as 'trusted adviser.' In its stead, consultants have battled the 'transactional' image of their work. Ironically, in the face of uncertainty and personal and professional reputational risks, the credibility and trustworthiness of the advisory is doubly valued. Covaleski and Dirsmith (2015) suggest that 'experts appear as mediators between clients and an increasingly complex world, who promise, with their specialized knowledge, to guide clients safely through difficult situations.' With their firm footing on pay data, an enterprising spirit and an elite staff, the ideals of professionalism are mostly achieved. Thus, it is a matter of professionalism ‘in appearance’ which rounds out the expert claims made by ExComp’s consultants.

Professionalism

Given the elevated status of the professional in society, remuneration consultants must appear professional, sound professional, and act professional in lieu of possessing a distinct professional qualification. As described in chapter 4, the field of remuneration consulting can now boast both a Code of Professional Conduct and a professional body, even if the latter predominantly fulfils a stewardship role with respect to the code.

In constructing the image of the ‘trusted adviser’, the consultants are a blend of the management consultant and professional gatekeepers. The consultants’ advice, compiled within glossy reports or PowerPoint decks, are delivered by the ‘professionally’ attired principal or partner, an individual with established reputational capital. The elite image of the management consultant aids in constructing that sense of the consultants’ special knowledge. Furthermore, by mimicking the apprenticeship models used within the classic professions – such as law and accounting, - the field of remuneration consulting is seen to produce qualified and specialised labour.

Accretive body of knowledge

These four strategies, collectively, comprise the remuneration consultants’ system of knowledge. It is not the case that data collection is then superseded by data analysis and then client engagement work. Each phase of work influences and is influenced by successive phases of work (Power, 2015, p. 44). It is the accretion of the consultants’ technical skill-set, absorbed and altered at the level of practice, and then delivered to the client by the ‘professionalised’ advisor which constitutes the remuneration consultants’ claim to executive pay knowledge and expertise.

Arguably, the work tasks of auditors and lawyers – in their highly routinized and repetitive iterations may be no different from remuneration consulting’s work tasks, or management consulting for that matter. That auditing can be described as a 'system of knowledge' (Power, 1996) – seemingly stable - while remuneration consulting is vulnerable, raises questions about the stability of professions' knowledge systems, and whether these can be deemed systems. While there are seemingly effortless comparisons and contrasts to be made between remuneration consulting and management consulting, going forward, the researcher intends to more effectively engage with the similarities and differences between consultants' and auditors' systems of knowledge.

5.8 Links to Chapter 6

As described earlier, the consultants' judgment is largely obscured in deference to promoting the objectivity and rigour of data analytics work. However, consultants make judgment calls at every step. Decisions around how and which data should be collected and inputted into a particular database are shaped by the availability of information, and the needs of the client. The role judgment is remuneration consulting work is closely in the context of pay benchmarking work in the following chapter.

Chapter 6

Pay benchmarking: Art or Science?

6.0 Introduction

Executive remuneration consultants have been implicated in the upward ratchet of executive pay for their role in selecting 'skewed'[128] peer groups and 'chasing the median'[129]. Corporate governance scholars have repeatedly and invariably studied these phenomena through the lens of managerial capture theory (Bebchuk and Fried, 2003). In so doing, researchers have not been sufficiently attentive to the mechanisms or implications of pay benchmarking, such as peer group selection or the effect of 'the median' on executives' perception of worth. This chapter makes two key contributions. First, it presents a conceptualisation of pay benchmarking practice as both 'art and science', elucidating how consultants draw on in-house methodology, institutional norms, and professional judgement in constructing the benchmark. Second, the chapter describes how 'the median' intersects with executives' perception of worth, creating a *culture of median pay* which differs from hypotheses on rent extraction or executive greed. It is this *culture of median pay* which plays an important role in the upward ratchet of executive pay.

To this end, the chapter questions 'the "givens," the unstated and often unrecognized assumptions that underlie ideas, situations or practices' (Young, 2006) in executive pay design and determination. Creating a pay benchmark relies on data from the 'market for executive talent' and the chosen peer group. Yet, both the market and the peer group have more or less been treated as a black box, which obfuscates the work of consultants, remuneration committees and executives in constructing both the market for executive talent and the peer group. The self-evidence of the market is problematised by challenging the suggestion that 'consultants act as disseminators of information about compensation… as an appendage to the market, reporting on what they see and making

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[128] A concern with skewed comparator groups was 'flagged' in the Greenbury Report (1995), although at this time, the report did not link this concern with remuneration consultants or consulting work.
[129] The term 'chasing the median' is used when describing companies that benchmark executive pay packages at or above the median of the chosen peer group.

recommendations' (Finkelstein and Hambrick, 1988). It is argued that consultants do not merely 'transport meaning without transformation' (Latour, 2005). Rather, by drawing on statistical tools, technologies, and representations, they produce 'facts' about the market for executive talent. Pay benchmarks, in turn, rely on the stability of this market to 'transform, translate, distort, and modify the meaning of the elements they are supposed to carry' (Latour, 2005).

6.1 Historical Linkages

In pay benchmarking practice, pay for a particular role is positioned against the pay for a similar role found within the same or a similar sector. In the context of executive pay benchmarking, the pay package (base, bonus, LTIP and pension) for executive directors is positioned against the pay packages of executives in comparator (or peer) firms. These comparator firms are either of similar size or similarly complex, or comprise both characteristics in relation to the benchmarked firm. By similarly complex, the remuneration consultants typically select firms in the same sector or industry group to comprise the 'sector peers.'

Pay benchmarks are a stalwart in executive remuneration consulting work. As described in Chapter 5, it has become the object of criticism and derision from politicians, institutional investors, governance analysts and the High Pay Centre, among others. This section describes the factors, which contributed to the embedding of pay benchmarking practice in remuneration consulting work. It is these historical links, which shed light on the resilience of pay benchmarking work, in spite of the concerns with the upward ratchet of executive pay.

The historical pre-conditions of pay benchmarking practice presented in this chapter first emerged in the United States with the rise of corporate executives in the 1920s.[130] This was coupled with and followed by the rise of management consultants, executive stock options, and executive pay surveys. The growing importance of these actors intersected with firm-level concerns about designing

[130] As contrasted to the owner-manager

optimal incentive systems, retaining top executive talent, and governing executive pay determination.

It is the emergence of executive pay surveys in particular which laid the foundation for pay benchmarking work, as the survey enabled insights about the executive pay market against which executive roles could be compared. In the following subsections, several of these pre-condition to the institutionalisation of benchmarking practice, are described.

6.1.1 US Context

The rise of corporate executives as well as the pedagogic interest in corporate executives in the United States is linked with the separation of management and ownership in public companies. This emerging class of executives or professional managers – 'lacking the legitimization of actual ownership' (McDonald, 2013) – sought to strengthen their position within the corporations they were leading by soliciting advice from the nascent field of management consulting. The management accountants and engineers – the titles which preceded management consultants – positioned themselves as the able advisors to the corporate executive.

From the 1920s, leading American firms were grappling with optimal incentive systems for their burgeoning class of senior managers. Leading the pack, Du Pont and General Motors (GM) were the first to introduce stock based compensation to correct for moral hazard problems anticipated when managers were no longer the sole or majority owners of the company (Holden, 2005). Du Pont and GM were also central in the rise of the multidivisional firm, the decentralisation of managerial autonomy and the increasing use of management consultants. Matthias Kipping (2011) describes the intersection of these events as follows:

> 'In response to the challenges of increasing size, diversification, and competition, from the 1920s onwards, American companies such as GM and Du Pont developed the multidivisional structure, or M-form. In its subsequent dissemination and popularization, consulting companies played an important role. The Great Depression probably also promoted the

increasing use of consultancies for industrial restructuring. In addition, the legal separation of investment and commercial banking meant that banks could no longer offer their business surveys, which provided independent service providers with new opportunities. The new generation of management consulting companies, which grew rapidly in importance and market share, were not linked to scientific management, but had its origin in a variety of other approaches, including contract research, accounting, and industrial psychology (p. 207).'

In spite of the Great Depression, or perhaps because of it, management consulting work and management consultancies grew substantially throughout the 1930s. Growth continued during the Second World War. One firm, which had risen to prominence, attaining and retaining iconic status, was McKinsey. Following the death of its founder, James O. McKinsey in the 1930s, the firm was strategically and impressively steered by Marvin Bower. Bower's focus on 'CEO-level assignments' (Kipping, 2011) and its social and economic prominence were important pre-conditions for the immediate and widespread acceptance of executive pay surveys, which was introduced by McKinsey Director Arch Patton in 1951.

Executive compensation [131] was garnering attention in the late 1940s, as companies struggled to hire and retain top executive talent in the post-war years. In order to attract the appropriate talent, companies were concerned with paying competitively, or paying the 'going rate.' Business writer and journalist, Duff McDonald (2013) describes the conditions from which Patton's executive pay survey emerged:

> 'From 1948 to 1951, *HBR* [132] had one article a year on executive compensation. A few years later, the review was running five times that amount. This was actually a perfect moment for the new "field of study," because in the post-World War II years, there was a shortage of executive talent and corporate leaders had begun poaching executives not just from the competition but also from entirely different sectors.'

It was against this backdrop that the first executive pay survey was published in 1951. The American Management Association asked Arch Patton to conduct a

[131] Compensation is the term typically used in the US in place of remuneration.
[132] Harvard Business Review

multi-industry executive pay survey. This survey was then published in the Harvard Business Review in 1951 and for more than a decade thereafter. Patton, an active business writer throughout his career, later recounted the role, which the survey played when it was introduced:

> 'The 1951 AMA survey provided, for the first time, data on top management compensation on an industry-by-industry basis in an organized form. Though limited in functional coverage and crude by today's standards, the report opened a Pandora's box. Key functional executives could now compare their income with the average for the same jobs within their industry. Prior to the survey, executive compensation data was one of the best-kept secrets in the average company. The only people who knew the figures were the chief executive, the board of directors, and a clerk who kept the records-and they didn't talk.'

In addition to the increasing interest in executive compensation, the shape of executive pay in the United States was also transforming. The concern with aligning management and owner interests persisted, encouraging the uptake of executive stock options, however such schemes were often prohibitively expensive for the shareholders and the executive. However, as part of the 1950 Revenue Act, the US Congress granted favourable tax treatment to stock options, catalysing an explosion in restricted stock option use for corporate executives. It was this explosion in stock options and rising prevalence of executive pay data, which enabled the emergence of executive compensation consulting in the US. As former Tower Perrin Managing Director Bud Crystal stated, 'executive compensation consulting, as an organized profession, did not get started in any meaningful way until the 1950s' (p. 10).

Crystal (1991) recalls compensation consulting work growing steadily, but unspectacularly, from the 1950s due to the proliferation of stock options and a strong and sustained 'bull' market. That is, until the oil crises of 1973 and 1977 and the consequent stock market crash. These events precipitated a critical revaluation of the use of the stock price as a measure of performance, as company stock prices plummeted, and executive stock options stopped paying out. In place of stock prices, growth in earnings per share was an early popular alternative. In order to implement the new compensation plans, the economic value of existing forms of compensation (such as stock options) needed to be measured, which in turn gave rise in the demand for 'increasingly sophisticated compensation surveys' (Crystal, 1991).

Thus, compensation surveys were commonplace in the US by the 1970s. Although the term pay benchmark was not apparent in historical recaps of this period, the compensation survey is epistemologically similar to the pay benchmark, as it is understood today. The surveys essentially were a grouping of comparative information, upon which company executive and internal human resource functions could base their pay decisions.

An important journey, however, had not yet been made. Compensation surveys (as it is termed in the US context) had yet to emerge as Remuneration surveys in the UK context. This was achieved with the movement on consulting firms into London in the 1970s, and importantly, the work of Towers Perrin in establishing executive pay surveys for a UK based clientele.

6.1.2 UK Context

Pay Surveys

In the 1970s, American multinational companies were establishing subsidiaries in Britain and continental Europe. Management consulting firms from the US flocked to establish London offices in order to service these subsidiaries (Kipping, 2001). Actuarial and benefits consultancies such as Towers Perrin and Mercer, were similarly establishing or expanding their European presence.

These actuarial and benefits firms had, from the 1950s and 60s in the US, started reimagining their service offerings to include all elements of pay (actuarial, benefits, communications[133] and direct pay[134]). It was these business streams around which the European practices were built. As described in chapter 3, Towers Perrin was the first prominent player in conducting executive pay surveys

[133] Communications, such as brochures, sought to inform employees about pay, thereby improving employee understanding and the value, which they placed on compensation arrangements.
[134] Direct pay represented base, bonus and long-term incentive elements.

for large companies. Initially, Towers' London office served US clients. As their reputation grew, Towers broke into the UK pay survey market, and within a matter of a few years, between the late 1970s and early 1980s, the firm's 'Top Executive Pay Survey' comprised 80 of the top 100 UK companies.

Also detailed in chapter 3, the shape of executive pay was changing in the UK in the 1980s. Executive pay packages, straitjacketed by the prohibitively high tax rates in force in the 1970s, underwent a marked transformation with the passing of the 1984 Finance Act. The Act significantly reduced taxes and encouraged the introduction of executive stock option schemes. The explosion in stock option use in the UK is not dissimilar from the US in terms of the favourable tax changes, which triggered US executive stock option use. Yet, the shifts in UK executive pay practices were not simply a matter of replicating US practice. Executive stock options gained both popularity and infamy during the privatisation years.

As remuneration consulting teams stabilised throughout the late 1980s and 1990s, and the demands for pay information surged, consultancies invested in establishing in-house databases. Through these in house databases, vast amounts of data were collected. Pay data surveys were increasingly covering large swathes of companies, such as the FTSE 100, FTSE 250, FTSE 350 or FTSE All Share.

As Main (1992) noted, remuneration consultants 'conduct general surveys of top executive pay, and then tailor these to suit particular companies by presenting analyses of comparator groups of companies.' With the proliferation of data collection, there was now a need to define more carefully, the subset of the market 'relevant' to the client. Instead of bespoke surveys, with data collection targeted at a select group of companies, as the first data surveys had been, the ever-growing supply of data meant that the consultants needed to carry out the task of extracting the peer or comparator group from the database. The consultants were best placed to carve out the peer group from the broader database.

In the early 1990s, pay data, market trends analysis and the institutionalisation of pay benchmarking work was triggered by two governance episodes, the Cadbury Report and the Greenbury Report. The following section describes the implications of these two reports in buttressing the oversight role of the remuneration committee through the use of pay benchmarking data.

Corporate Governance Codes

As described in Chapter 3, the Cadbury committee was convened in response to corporate failings at Polly Peck and BCCI. During the committee's deliberations, the Maxwell scandal came to a head, creating the added momentum for executive remuneration to be thrust upon Cadbury's agenda. Committee attention focused on the shortcomings of non-executive directors in their monitoring and oversight role. Non-executive directors were seen to be at an informational disadvantage vis-a-vis internal directors (PRO NED, 1992). Thus, in order to effectively challenge executives, remuneration committee should be established, and populated predominantly with NEDs. For the remuneration committee, pay data would provide the justification necessary for remuneration committee members to opine on pay packages.

Following the Cadbury Report, executive remuneration largely fell from public attention. It re-emerged in 1994 in response to the windfall gains being earned by executives in the newly privatised utilities companies. The public and political ire prompted the formation of the Greenbury Study Group. As noted in the introductory chapter, the corporate governance codes have relevance for the emergence of actors, documents, norms and practices in remuneration design and governance. In this chapter, the institutional practices which emerged within pay benchmarks were critically shaped by recommendations made within the Greenbury Report.

Similar to the Cadbury committee, the Greenbury Study Group was concerned with the informational needs of the remuneration committee, recommending RemCos access reliable and up to date information about remuneration in other companies, for which remuneration consultancies were optimally placed to supply based on their pay surveys. The report also recommended that committees draw on outside advice and feel free to retain their own consultants separate from those hired by the company's management. It is Greenbury's view of the market for executive talent, which this chapter problematises. The Greenbury Report stated:

> There is a market for executive talent. Market forces are especially apparent in certain industries, notably international industries, and in certain skills. There are also market-related lower limits for the remuneration of Directors and senior executives in the largest companies. Below these limits companies would have great difficulty in recruiting, retaining or motivating people of the right quality and expertise.
>
> However, the market is imperfect. Many Directors and senior executives spend much of their working lives with the same organization. The remuneration that they receive is determined by Boards and remuneration committees rather than directly by the market.[135] These committees are often influenced by consultant surveys or information exchanges with other companies. However, there remains much scope for different interpretations and applications.
>
> While market forces set a broad framework, therefore, remuneration committees for the most part have quite a wide range of discretion in setting levels and forms of remuneration. Their task is not easy. It requires knowledge and judgement.

The Report then went on to caution boards and remuneration committees to 'avoid paying more than is required,' that remuneration committees are to 'consider carefully a range of issues.' The issues included:

> '(the committee's) overall strategy for executive remuneration levels; the positioning of their company relative to other companies; the group of companies, if any, with which their company should be compared; the surveys and other information they need and the reliability of this information; the equivalent levels of jobs between their company and others…'

These 'issues' are the inputs and assumptions for pay benchmarking work. The Greenbury Study Group's recommendations, by and large, codified comparator groups as a key consideration in the determination of executive remuneration. And these concerns were all premised on the need to compensate for the

135 This was seen as appropriate since many executives spend much or all of their working lives with the same organization.

shortcoming of an imperfect market which possessed some objective reality. Greenbury had inadvertently 'black boxed' the market for executive talent.

6.1.3 Problematising the market for executive pay

Malsch et al. (2012, p.401) state that the remuneration market 'is seen as natural, providing conditions of possibility that serve to establish fair compensation through the creation and enforcement of contracts.' A common refrain from consultants when asked to describe the market for executive talent was that 'the market is no one thing.' The objective and seemingly stable market for executive talent, to which the Greenbury Report referred, is problematised[136] throughout the remainder of the chapter. In this chapter, if the market is 'no one thing,' then it is an empirical question to establish the means by which the market is constructed, and the implications of its construction.

An 'imperfect' market for executive talent is not the starting point from which executive pay packages are derived. Rather, the market is repeatedly constructed through the survey and market trends producing work of consultants, work that in turn is accepted by clients, regulators and the public. The historical emergence of executive pay benchmarking is essentially the emergence of 'tailored' executive pay surveys. This tailoring was required once pay data collection exceeded what was seen as relevant for the client's pay comparison.

Median pay philosophy

According to Greenbury, two key principles inform pay decisions; flexibility in setting pay and avoidance of overpaying, facilitated by exercising care in positioning the company relative to comparable[137] companies. The report further stated:

[136] Foucault (1985) describes problematisation as an 'endeavour to know how and to what extent it might be possible to think differently, instead of what is already known' (pg. 9).
[137] Comparability should be determined based on factors of risk, challenges, complexity, diversity and international spread of business, and the special expertise and understanding required of its executives.

> Companies should not pay above *average*[138] levels regardless of performance. They should also beware of basing remuneration levels on a skewed comparator group so as to justify higher remuneration levels. If companies generally pursue such policies, the effect will simply be to ratchet up the general level of executive remuneration.

Further entrenching both the intense focus on the average or median were institutional shareholders. As one former managing partner recalled:

> 'It must've been about '96 or something like that, shareholders got this soundbite in their head that said you shouldn't pay for below average performance and so the median became the floor below which you couldn't pay. Of course what that does is it changes the thing so that actually you've only got a quarter of the possible performance outcomes which changed the amount you're paid. You're getting the maximum for the top quartile, you are getting nothing for the bottom two quartiles, and everything was varying in the third quartile.

Similarly, in 1999 the ABI released guidelines, which Main (2006) described as 'a fairly radical departure from what had gone before.' In the 1999 Guidelines, the ABI placed markedly more emphasis on setting challenging performance criteria (or 'hurdles') before the executive stock options vest, and recommended that performance be judged on a relative basis, using peer groups or performance benchmarks (Main, 2006).

Although the term average was often used by consultants in interviews, as well as in guidance or regulatory documents, the statistical reference point was the median. Since the mean allowed outliers to affect the average, and Greenbury had cited the potential ill effects of skewed comparator groups, it was the median, which became entrenched in executive pay practices. As one consultant described:

> 'What you're trying to do is you're trying to position the company at the middle of that group…I suppose it's pretty much entrenched now that most companies are aiming to be the middle…Effectively, you're always aiming to have a group kind of spread around that company…'

[138] Emphasis added

This emphasis on the median has come to shape what consultants described as the remuneration committee's median pay philosophy. In order to achieve a median pay philosophy, the client company should be situated in the middle of their peer group, where half the peers are selected 'above' the client and half are selected 'below'. The remuneration committee then seeks to make a decision about the pay package with reference to the median pay levels for the different elements of pay. This is described in further detail in the next section.

6.2 Pay Benchmarking Practice

The following is a recount of a conversation between the researcher and the consultant, and captures several of the core dimensions of pay benchmarking practice:

> *Researcher:* Can you tell me about your pay benchmarking work?
>
> *Consultant:* Benchmarking in an annual exercise. The client asks us to figure out whether their people are being paid competitively to the market.
>
> *Researcher:* How do you go about getting data for the market?
>
> *Consultant:* Regardless of who is making the request - whether board or management - you go about it the same way. You can use survey data, public data
>
> It kind of depends on what the objective is to be honest. From the board's perspective, you would take a more conservative approach according to their compensation philosophy.
>
> You will find the data for sectors that are more in common and you typically use a blend of survey data and public data.
>
> You then match up the different jobs to the title of the client, and then you produce the statistical distribution. Then you see where your client lies within that statistical distribution.

> If the compensation philosophy is 'median', then you say the client is above or below median and by how much.
>
> And then recommend whether they should increase their fees or not based on a host of other contextual factors which needs to be taken into account.
>
> ***Researcher:*** What contextual factors?
>
> ***Consultant:*** How do the investors view it?
>
> If the gap to market is really big, is it the right answer to just bump up pay. You can bump base, which would have a roll on effective to the incentive opportunity.
>
> If there are a number of changes to a management team in a year and there have been one off payments that need to be disclosed, is it the right time?
>
> As you know, benchmarking is not a perfect science. There is some sort of art and judgement in it.
>
> Two jobs that are titled similarly, does not mean that the scope of the job is necessarily the same.
>
> You can size regress the information. You can try to evaluate the job, assign points and determine whether the points match up.
>
> In any of those approaches, there is a lot of judgement…

In a somewhat stylised, albeit common, account of pay benchmarking work, the key steps are described by consultants as follows; (i) the client makes a request for a role(s)[139] to be benchmarked, (ii) the consultant then compiles the peer group and reverts to the client, (iii) the client confirms the peer group and (iv) the consultant, with the aid of summary statistics, positions the role(s)'s current or proposed pay package against summary pay data for a similar role(s) within the peer group.

[139] Typical roles include executive boards members, and the non-board executive committee roles.

6.2.1 Peer Group selection

The common criterion by which a peer or comparator firm is selected is based on size and/or sector matching. This means, whether a potential peer is of comparable size, belongs to the same industry or sector, or fulfils both characteristics. Consultants will typically assess an appropriate size match based on market capitalization, revenue, number of employees or a combination of these factors. For ease in identifying size matches, in the field site, analysts were trained to use EIKON and Bloomberg databases. The Induction's technical skills training entailed an introduction to these databases, including how the database is used, the limits of the data, useful tickers and how data is exported to Excel. Further training on Excel introduced the analysts to typical functions and useful shortcuts. Once a senior analyst demonstrated the use of the programs, the analyst was tasked with pulling comparator firms' pay data from the database for a benchmarking exercise. The database extraction was algorithmic in generating the list of peers for a client.

In most cases, the senior team member (typically the principal or partner) of a client team had a particular preference as to how peers were selected. In one case, the analyst simply started with a Google search to identify peers. In another instance, the analyst 'opened' EIKON, put in the company name and used 'screeners' to limit peers according to certain criteria, in that case, revenue or the number of employees.

Generating an initial list of potential peers was not challenging work when using EIKON. When selecting size peers, an analyst might use as a *rule of thumb,* '10 above and 10 below', that is, the analyst selected 10 companies larger than the client company and 10 companies smaller, based on market capitalisation. Market capitalisation was typically used as the proxy for size unless either the consultant or client believed that revenue was more appropriate.

In some cases, the management team of the client company or the remuneration committee provided the peer group to their remuneration consultants. Although best practice governance guidelines stated that the remuneration *committee* should be ‘rigorous in selecting an appropriate comparator group’ taking into account factors such as the size of the comparator companies; the complexity of the business; the industry sector; the degree of internationality; the number and type of employees and the management structure, it was seldom the case that the committee identified the peer group.

One method used by senior analysts to bolster confidence in the selection of peers was a test for ‘resonance’ in their data set. Resonance measured the correlation amongst the log of monthly total shareholder returns for the selected peers, that is, it ‘looked at short term movements in TSR.’ Similarly, senior analysts also ran regression analysis in order to derive the R squared. R Squared signalled the magnitude of the effect of external factors on a company’s total shareholder return. For example, an R squared of 74% meant that 74% of the client’s shareholder return movements were affected by similar factors as the peer group. The correlation often generated a higher result than the regression’s R squared, making the ‘optics look better.’ While this gives the impression of a system susceptible to gaming, the consultants were trying to describe the systems by which they demonstrated the objectivity of the peer selection processes.

It was these actions which consultants considered the ‘science’ of pay benchmarking practice. By virtue of using the database and statistics, the consultants recognised the market was brought into being for a particular client. Given the consultants’ reliance on data, the peer group derived from the database represented the statistically and methodologically rigorous ‘market for executive talent.’ It is on this basis that one consultant opined ‘it’s not like we’re making things up.’ In the steps that followed, the consultants applied ‘judgement’ to the peer group selection; actions, which constituted the ‘art’ of pay benchmarking practice.

6.2.2 Judgement in peer group selection

In the analyst training session, peer group selection appeared almost formulaic. Yet, as the analyst gained more experience, it became clear that there were numerous situations in which ’10 above and 10 below’ didn’t suit. It was often the case that at least one comparator firm generated from the database was removed from the peer group. As one analyst described:

> You do need to go through companies on a case-by-case basis because you will often find a company that's in theory a good fit…they might have circumstances that would warrant its removal from the group. Cases such as a company having a CEO that's a large shareholder.

Another example supplied by a principal, described his rationale for setting aside conventional wisdom in order to select more suitable peers:

> ‘When you're doing a distribution business you can't just take revenue… You can't just go to a survey and say, "Well we've got $10 billion in revenue so we're going to pull the data for companies with $10 billion in revenue…" Because they’re distributors…they buy something and sell it for a small mark-up, they're middlemen.
>
> …the economics of their business is so completely different than the economics of a manufacturer that has $10 billion in revenue, or a technology company that has $10 billion in revenue, but fifty percent margins. Totally different than a distributor that has one and a half percent margins.’

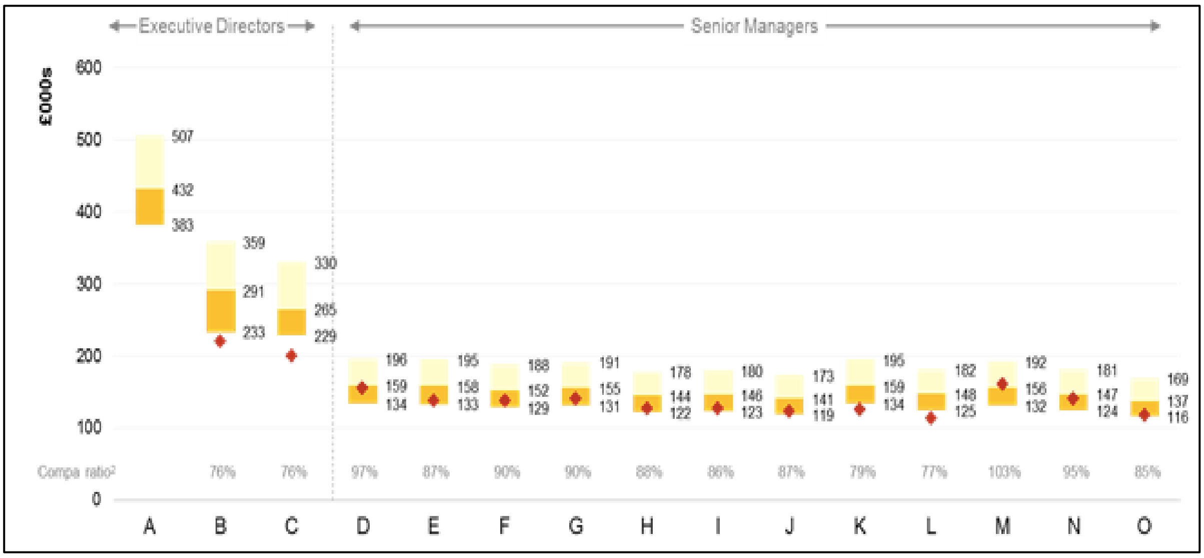
The principal attributed his twenty years in pay consulting to his ability to ‘understand, interpret, and evaluate the data.’ Also affecting year on year benchmarking for a client were possible takeovers, mergers, de mergers, delisting and suspensions of comparator firms or potential comparator firms, which might require an adjustment to the selected peer group.

6.2.3 Communicating the benchmark

The final output of the pay benchmark conceals the narrative of the many assumptions and decisions made throughout its construction. In the chart below, roles A to O for the client company were benchmarked against a group of comparator firms. The red marker indicated the total pay for the client’s executive directors and senior managers. The block represents a quartile analysis, where the darker orange block indicates the lower two quartiles, and the pale orange represents the upper two quartiles. The median is the point at which both blocks meet.

Once this visual is communicated, the assumptions required in its creation fall away, and the red marker in relation to the quartiles becomes central in the discussion. The client's executives' pay position is then spoken about as either above median, at median or below median. It is at this point in which the contextual factors and negotiation of the final pay package takes place.

Figure 6.1: Pay Benchmark



6.3 Reacting to the benchmark

This section summarises the views of consultants as well as governance analysts, remuneration committee chairs and internal heads of reward, in response to the pay benchmark and the deliberations on executive pay packages, which ensue.

In the interviews with consultants in which the benchmark was discussed, the responses were nearly identical on two fronts; (i) pay benchmarking is routine work and (ii) it is a starting point in the remuneration committee's pay determination process. Consultants maintained that they provided advice, and at no point did they decide pay. Senior consultants felt governance helped strengthen their voice in the boardroom, as it was incumbent on them to flag committee or management choices that institutional investors were likely to vote against. However, challenging the executives was never an easy position for the consultant or the committee. As on consultant described:

> ‘We work with people and you might have to send them a message they won't particularly like. It's always a nice situation if you do a benchmarking for someone, let's say, and then they're well below the market and they can argue for an increase in pay. However it's a bit more difficult to deliver the message of, "Well, you're kind of overpaid so you might want to just stick to it for the moment”.’

However, just by virtue of arguing for an increase in pay, didn’t mean that the remuneration committee could agree to it. The ‘median’ had come to be interpreted as the position in which the executive was neither overpaid nor underpaid, however, as consultants amended:

> ‘Simply being above median doesn't mean you're over paid, and simply being below median doesn't mean you're underpaid.’

Even then, there was still a bias implicit when a suggested pay package was ‘above’ the median versus ‘below’. While ‘well below the market’ might warrant an increase, it was almost never the case that an executive’s pay would be reduced if they were described as ‘well above median’ or ‘overpaid.’

It was common for the consultant and client to speak about pay increases in relation to the benchmark. One consultant recounted the ‘challenging conversations’ that were had with clients, reiterating that contextual factors were shaped by the internal dynamics and strategies of the client’s business. The consultant described relayed his recent interaction and advice to the client:

> ‘You might compare yourself with a group of companies, and say, "Well, actually because we're trying to develop right now, and because there is a lot of work that we're undertaking compared to our peers, we should actually pay a bit above median to get the right people in these positions to drive our strategy forward."

In other situations, his advice went the other way:

> ‘ "Well, you know what? For this particular position the amount of work isn't as big as in the peers. Essentially the role of this person is split. He has only a few regions to look at as opposed to what we expect others to have, so because of that we don't think it should be above median." ‘

This attention to contextual factors had also been influenced by institutional investors who had lost their appetite for pay increases premised on ‘below’ median’ benchmark results. The investors’ ability to exercise their voice by voting against the remuneration policy or report meant that both committees and consultants were listening carefully to the preferences of the relevant institutional investors. As described in chapter 4, consultants assumed a policing role in order to strengthen their gatekeeping presence. Institutional investors remained sceptical of the continued role of benchmarking in justifying pay choices, and the optics used in justifying pay increases:

> In terms of benchmarking instead of just calling it, "We're doing benchmarking," it is, "This guy is no longer competitively paid. This is a retention issue. He could be snatched away or he feels undervalued." It is the same thing really, but they're not calling it benchmarking anymore, because it's more emotive issue.’

Contextual factors were a dimension of the ‘art’ applied in pay benchmarking, and a critical component of the dynamic process of deciding pay.

6.4 The Upward Ratchet

This section describes the mechanisms by which the upward ratchet of executive pay has occurred. First, the self-fulfilling prophesy which occurred with the consultants aging pay and inflation adjusting at unjustifiably high rates is described. Although this has since been curtailed, due to both public criticism and the gatekeeping role which emerged, the consultants still struggle to outpace these once dubious actions. The second mechanism described is the role of disclosure in the upward ratchet of executive pay, and confusion between the benchmarking of a role and not the individual. Finally, the significant jumps which occurred in the ratchet are premised on the perceptions of worth which comparison generates.

Outpacing a dubious past

In chapter 4, the allegations made of the consultants' role in the upward ratchet of pay were not entirely baseless. Although the oft-used conflict of interest hypothesis was categorically dismissed by consultants, they conceded to their susceptibility in the past to acquiesce to the executives' demands. Consultants were not blind to the dubious role their field once played in the upward ratchet of executive pay. As one former managing partner recounted:

> It was widespread practice when somebody said, "Can you benchmark this job?" for the consultants to gather the information, bearing in mind it was becoming increasingly more public because the disclosure standards were going up. To go to the information and then say everybody's increasing the pay rates by 6%. If we adjust it by 6% then it'll be current for when these job changes take place. The data comes out at various times in the year, which all sounded perfectly fair and reasonable until you stopped to think about it because actually what that became then was a self-fulfilling prophecy. If you project it and make your decisions on that basis then presto those decisions produce 6%.

Pay inflation in the way described above disappeared during the global financial crisis, and the practice was abandoned as the Walker Review further implicated remuneration consultants in the upward ratchet of pay. Another practice from which the consultants wished to distance themselves was the practice whereby executives were approached with benchmarks illustrating the executive as underpaid in relation to the peer group. This practice was explicitly prohibited when the Code of Professional Conduct was established for executive remuneration consultants:

> 'Go back 20 years, it was not uncommon in some parts of the industry for chief executives to be presented with benchmarking analyses which suggested that they weren't paid enough. For them to then show them to their remuneration committees, and for their remuneration committees to then buckle under with a pay rise. I think the whole world's moved on now…I think that those problems are really problems of the past.'

However, these impressions of the consultant were difficult to shed. The public and political appetite for the shaming of executive pay packages and those involved in the design and determination of pay meant consultants were unlikely to escape continued criticism and allegations of managerial or board capture.

Disclosure

When pay surveys were first introduced, executive pay was both competitively sensitive information and culturally sensitive, in that pay was seen as a private matter not to be discussed. Thus, surveys were anonymous, and would likely have remained anonymous had mandatory disclosure not been introduced in 2002, requiring executive directors remuneration details in the directors' remuneration report. Disclosure was seen to enable investors and an interested public to peer into the blackbox of pay decisions. However, in so doing, it unwittingly opened Pandora's Box. As one consultant recalled:

> Then everything was anonymous. Chief executives would find out they were paid X and that was on the scale and you could say, "Oh yeah but you were ... you're lower down the scale, but you're not running such a big company." As soon as you have full disclosure, then they say, "She earns that much? My company's bigger than hers. I knew her, she used to report to me. How outrageous, I need more money," because it's all about that. There's a ratcheting up.

Previously, benchmarks, derived from an anonymised stock of data, meant that it was the *role* that was benchmarked against a peer group, and not an *individual*. However, with the benchmarking for executive directors – namely the chief executive officer and the chief financial officer – pay packages were no longer easily dissociable from the executive in office. Given the high visibility of executive pay in public policy and the media, and disclosure around executive directors pay, all key actors had first-hand information as to the pay packages of executive directors in public companies.

Thus, there were sentiments expressed by some consultants and executives that the starting point should be the fundamentals of the executive for whom the package was being designed. As one partner described:

> ‘I've never heard of people saying, "Let's look at what skills someone has and what skills we need, and give them money based on that." It's always about external benchmarking…external market practice.’

Yet, how then is comparison achieved if benchmarks attempted to incorporate individual characteristics? Role-based benchmarks retained the objectivity of the model by drawing upon highly institutionalised facts such as market capitalisation or revenue as a proxy for size, and industry as a proxy for complexity. And as established in the previous chapter, projecting objectivity and rationality in remuneration consulting work was of paramount importance.

Perceptions of executive worth

Consultants, remuneration committees and governance analysts described how they understood executives’ reaction to median pay; as a statistical output of the pay benchmark and as a signal of their performance vis-à-vis their peer group. As one former head of reward, now turned external remuneration consultant, opined:

> ‘Anyone appointed to a board position in a large British company has clearly had a successful career (ignoring a few cases of nepotism). Almost inevitably, these individuals have constantly been told that they are the best in their field. It is very difficult for those same individuals to accept that they are ‘only’ average, let alone below average. ‘

And yet, this was not universally believed. As one chief executive officer (FTSE 350) who also held a remuneration committee chair position in another company declared:

> ‘Too often people assume chief executives are irreplaceable. I'm not in that camp. For people to say, "You've got a star CEO and they're irreplaceable." I have no time for that at all, because I just don't believe that…
>
> …The world is full of good people wanting jobs, and the world is full of good executives wanting to get that CEO job, and yet there is this assumption you have to pay them an absolute fortune to do it. I just don't agree with that either.’

Another RemCo chair (FTSE 100) commented:

> 'The number of candidates presenting themselves who you think is half suitable is quite limited. There's a tendency to say, "Well, it's only one person. I don't mind paying 2 million pounds to get this person." '

This RemCo chair continued describing the immateriality to the firm's profits of paying £40 million for the executive team for a firm with £1 to £2 billion pounds in market capitalisation, and the shareholders acceptance of this once performance criteria was met. This is not to say that the remuneration package was decided entirely on this premise. Rather, it felt easy to make allowances for a requested increase when pay was perceived as an operating expense line item.

The contrast among these three perspectives on pay design and determination captured the recurring tensions in negotiating a pay package. Personal views permeated professional positions. Malsch et al. (2012) similarly study the cultural logics, specifically for remuneration committees determining executive pay in the Canadian context. The authors find that committee members 'are genuinely doing their best to fulfil their responsibilities, according to their cultural beliefs.' However a host of factors shape these cultural beliefs.

Ezzamel and Watson (1997) found upward pressure exerted on executive pay when the executive was deemed 'underpaid' relative to the market. However, there was no reciprocal downward adjustment when the executive was deemed 'overpaid.' There was a divergent opinion on the cause for this discrepancy, with some finding the committee beholden to the executive, while O'Reilly et al. (1998) argue that pay increases stem from self-referential social norms shaped by personal preferences. Thus, the act of 'bidding up' (Ezzamel and Watson, 1997) need not stem from one source of reasoning.

6.5 Toward a theory of pay benchmarking

Pay benchmarking is not conceptually akin to the benchmarking practices that emerged as part of the quality improvement initiatives that occurred in the manufacturing sector. Although the quality control benchmarking literature does little to theoretically inform executive pay benchmarking practice, it is indicative of the challenges, which researchers have faced in theorising benchmarking practice.

Academic research on benchmarks has overwhelmingly focused on applications of benchmarking in organizational practice. For the period 1994-2008, of the 406 articles published in *Benchmarking: An International Journal*, only four percent were conceptual (Anand and Kodali, 2008), and none addressed the underlying nature of benchmarking (Moriarty and Smallman, 2009).

In 2009, Moriarty and Smallman made a concerted effort to establish a theoretical base for benchmarking. Through a review of the major organisational perspectives, the authors established that benchmarking is a learning tool, executed for the purposes of improving organizational welfare. For their research, the concept of change was implicit in benchmarking practice. Yet the authors were not able to pin down the mechanism, which drove the change. Furthermore, the authors remained ambivalent as to whether the efforts made in pursuit of improvement were effective or ineffective. Ultimately, Moriarty and Smallman (2009) offered a provisional definition:

> Benchmarking is an exemplar driven teleological process operating within an organization with the objective of intentionally changing an existing state of affairs into a superior state of affairs.

While an epistemology of benchmarking remains elusive, there are conceptualisations of benchmarking which prove helpful. Wolfram Cox et al. (1997) suggest that benchmarking is a mixed metaphor, entailing notions of competition and collaboration. In their analysis of competitive forces in benchmarking, there was a concern that the benchmark was reduced to just a 'mark' or standard, rather than viewed as a process [140] for improvement. Measurement was related to 'the empiricist view that a concept attains status and legitimacy if it can be counted or measured.' A number of authors have attested to

[140] All definitions imply that benchmarking is a process, that is, a sequence of activities that involves "process and assessment".

the 'embeddedness' of measurement in the benchmarking process (Leibfried and McNair, 1992).

It is this inherent emphasis on quantification, measurement and comparison that suggests that pay benchmarking has a strong affinity with the academic insights in the commensuration and rankings literature.

6.5.1 Benchmarking: a system of ranking

Pay benchmarks are fundamentally a ranking of pay packages for a particular role across a group of similarly sized and similarly complicated firms. Each company that appears in the benchmark is comparable to the rest of the group based on two core characteristics, size and sector. Given that size can be measured in multiple ways, norms have emerged in pay benchmarking practice whereby revenue and market capitalisation are the typical metrics by which comparably sized firms are selected.

Commensuration

By using market capitalization or revenue to proxy for firm size, and global distribution of operations, for example, to proxy the complexity of work, a process of commensuration is enacted. Commensuration is described as the 'the transformation of different qualities into a common metric' (Espeland and Sauder, 2007 Espeland and Stevens, 1998, Sauder and Espeland, 2009). It is this process of commensuration which qualifies sufficiently comparable firms to constitute a single peer group.

A second process of commensuration then occurs, whereby the scope and complexity of a particular role is made commensurable. While the titles of top executive positions have converged – for example, CEO, CFO, COO – there are a host of senior executive roles, which must be made commensurate with the roles within their peer group. This is not to say that there are negligible differences in CEO work, but rather the visibility and social acceptance of the title dissolves perceivable differences. The benchmark then intensifies the comparability of the role, obscuring or concealing the differences.

Commensuration relies upon the quantification of qualities. Thus, the following section describes the consultants' role in creating the data – the facts – upon which the benchmark can then be constructed.

The production of facts

It is perhaps unsurprising that the members of the Greenbury Study Group perceived the market for executive talent as a functioning, albeit imperfect, supply of expert labour. The pay survey, markets trends analysis and pay benchmarks are the 'networks of support' (Power, 1996), which enable the consultants' 'project in fact building' (ibid.). It is these products, compiled by the expert adviser, and accepted within the broader network of relevant actors, which mediate the market for executive talent.

Pay surveys, trends analysis and benchmarks are embedded in a web of consulting work and remuneration governance work, which collectively represent a 'fact producing institution' (Power, 2015) upon which a stable and objective market for executive pay was perceived. Yet, it was not only a matter of collecting data and analysing it, which produced an objective market for executive talent. The consultants needed to produce a legitimate claim to pay expertise, which they achieved through processes of mimicking the profession of management consulting, appealing to the highly coveted board client, and critically having access to proprietary data.

With respect to databases which consultancies built, it served in making their expertise more persuasive as expert claims were linked with what appeared to be objective facts (Latour & Woolgar, 1986; Latour, 1987). The methodology employed in data collection, analytics and pay benchmarking is 'closely tied to the claim that it can produce a factual and calculable knowledge of economic relations' (Miller and O'Leary, 1993). There is something of a 'circular reference' in the perceived objectivity of the data, as the data contributed to the reifying of the consultant as pay expert, and in turn the expert status of the consultant reinforced the objectivity and stability assumed of the pay surveys and market trends analysis. It is this circularity, which enabled the market for executive talent to appear stable and permanent, even if the supply of labour changed within it.

In the context of the upward ratchet of executive pay, the consultants' judgement in adding or removing comparator firms from the peer group is seen as manipulation of the group for the purposes of increasing the executives' pay. Consultants' judgement, much like remuneration committee's upward discretion in the awarding of incentives, has become the object of investor ire. Yet, judgement is an inextricable dimension of pay benchmarking practice. Although consultants recognise the important of applying judgement to the peer group, they do not discuss it at length, document it or defend it publicly. Consultants invest far more time and energy in documenting their methodological approach, and the rigour of their methodology. Arguably, it is their vulnerable and tenuous status as pay expert that prompts the obfuscation of their judgement. Porter (1992), in describing accountants, stated:

> 'Accountants, operating in a highly contentious domain, lack the status and credibility that would permit them to rest their claims mainly on wisdom and insight. It is in large measure for broadly political reasons that a positivistic rhetoric of impersonal facts prevails in accounting' (p. 638)

Porter's statement is arguably more applicable to the remuneration consultant than the accountant. Within the field of accounting, the audit client accepts the accountants' system of knowledge as a function of their academic knowledge, specialist training and rigorous accreditation processes. The consultant, however, does not possess a similar foundation upon which to negotiate the acceptance of their judgement. Thus, the consultants emphasise their firm's methodology, despite the ubiquity of methodological approaches across the leading consulting firms. Porter (1992) is again insightful when he notes that this insistence on standardizability, even where it violates the best judgment of expert practitioners, will rarely be found except in fields that are highly vulnerable to criticism from outsiders' (p.639). Thus, the consultants' databases and market trends analyses are the ‘networks of support’, which enable their ‘project in fact building’ (Power, 1996a).

The benchmark, or ranking of executive pay, which results from the tailoring of the data has implications for the governance work of remuneration committees, the remuneration consultants’ gatekeeping role, the institutional investors stewardship role and the importantly, the pricing of the executive director. The pay package of the executive places a quantitative value on that executive, or put differently, it signals what the executive is worth to the company. Thus, it is not surprising that executives alter their behaviour in response to being evaluated, observed, measured by their employer, and furthermore ranked against a group of their peers.

Given that rankings ‘change how internal and external constituencies’ (Sauder and Espeland, 2009, p.64) behave, the following section analyses the ‘reactivity’ of the key actors, by drawing further on the work of Espeland and Sauder (2007) and Sauder and Espeland (2009).

6.5.2 Internalization of the pay benchmark

Although argued by the consultants to be a reference point, or starting point, the benchmark is ultimately absorbed by the actors and its meaning negotiated within pay setting processes. Internalization, as described by Sauder and Espeland (2009) is ‘mediated through people’s emotional and cognitive responses to ranking, and through their distinctive and evolving interpretations of rankings’ (p. 74).

Accountability

While pay benchmarking, as a derivation of pay surveys, stems from a concern with attracting and retaining labour, the corporate governance codes in the early-mid 1990s and the influence of these codes on remuneration committee governance work, transformed pay benchmarks into a tool of accountability. The newly established remuneration committees were accountable to shareholders for their executive pay decisions. Similar to other regulatory spaces subject to increasing pressure to demonstrate their accountability via quantitative measures (Espeland and Sauder, 2009, Power, 1994), the remuneration committee drew heavily on the benchmark for the justification of its pay decisions. As Espeland and Sauder (2007) state, 'quantitative authority and its link to accountability and evaluation are now so secure, so bound up with being modern, that we have trouble imagining other forms of coordination and discipline or other means of creating transparency and accountability' (p. 5).

Similar to the remuneration committee, accountability and stewardship was also being demanded of institutional investors and investor representative bodies. However, unlike the remuneration committee that relied upon the benchmark to justify their decisions, the investors resisted pay increases premised on below median benchmarks results. Thus, consultants had sought to de-emphasise the benchmark as a key reference point in pay decisions, however the very nature of rankings, and the obsession with rankings challenged such a shift from successfully occurring.

Cultures of Median Pay

The benchmark was meant to reflect pay, not change it. However, 'the legibility, simplifications, and stratification that rankings create' (Sauder and Espeland, 2009, p.74), enabled executives to quickly and easily compare themselves with their peers. The benchmark, in reporting the pound value attached to the executive being benchmarked, symbolises the worth of that executive. However, this cultural logic comes into conflict with the remuneration committee's accountability logic, the institutional investors' shareholder logic and the consultant's gatekeeping logic.

Individual executive director's sense of self-worth is poorly suited to processes of commensuration. This is because those individuals who have attained executive directorships have not done so on median performance, and yet, pay benchmarking has institutionalised median pay philosophies. As Porter (1995) observes, standardisation and the quest for the average still constitute important social forces (cf. Malsch et al., 2012, p.411). The remuneration committee partly conforms to this social force, and in so doing, create expectations for executives to similarly conform to a median pay philosophy. Yet, the culture logic of the above-average, exceptional, star executive is irreconcilable with the term 'median.' Words have meaning; top quartile pay is perceived as pay earned by top performers, and median pay by median performers. The size and complexity dimensions of the role and firm fall away in the final representation of the benchmark.

The executives, acutely aware of the pay of their closest competitors are unable to disentangle their worth from the visual construct in which it is presented. The benchmark, was meant to innocuously position pay, when it in fact 'ranks' the executive, implicitly signalling pay points which are better and those which are worse. When those pay points are linked with the individuals in those positions, all the characteristics which are excluded from the process of commensuration are brought to the fore.

Individuals are reflexive, continually interpreting meaning in their worlds. This is arguably even more the case for executives given their status in society, their high public visibility and the dire consequences when seen to have failed in their role. Their resistance to being paid at median is often perceived an egotistic, self-serving, or greedy, and while there are certainly cases of such characteristics amongst executives, the upward ratchet of executive pay must also be analysed within the context of the logics that emerge in both the construction and interpretation of pay benchmarks. Words are embedded with cultural symbolism. Median pay is tantamount to average pay, which signals average quality and average worth vis-à-vis the peer group.

6.6 Summary

The chapter contributes to our understanding of the role, and more importantly, the agency of pay benchmarks in the dynamic processes of pay determination. Executive pay decisions have been rendered impossible in the absence of evaluation, measurement, and comparison. Rankings, as a measure of performance, and the organizational responses to rankings have previously been studied (Sauder and Espeland, 2007). However, applying the concept of rankings to benchmarks is novel. What is left underexplored is the disciplinary power of pay benchmarks. This chapter touches briefly on the surveillance and normalisation processes which have emerged in response to pay benchmarking practice. However, further analysis would shed light on the ways in which the competing logics of the key actors shape these processes.

Chapter 7
Risk in Remuneration Governance

7.0 An impossible job

Capturing the current sentiment in remuneration governance, an October 2016 publication by Deloitte's remuneration consulting practice stated:

> 'Remuneration committees find themselves in an almost impossible situation. Determining the structure and level of remuneration taking into account the needs and circumstances of the business, the shareholders and the executive directors is challenging enough. Add to this the media, political and wider social attention and the role of the non-executive remuneration committee member becomes a rather unattractive one.'

It is evident in the four substantive chapters that actors grapple with a host of pressures as they navigate the pay governance landscape. What is lost in this fray is the quintessential premise of incentives: to direct, motivate and reward executive directors. In the politicization of executive pay which has unfurled in recent decades, executive pay packages have been co-opted. The four substantive chapters, to varying degrees have described the relations, linkages and emergent interdependences amongst actors, tools and documents within the fields of remuneration consulting work and remuneration governance.

Core and competing logics

As described in the introductory chapter, logics are supra-organizational patterns, both symbolic and material, which order reality and provide meaning to actions and structure conflicts (Friedland and Alford, 1991; Thornton, Ocasio, and Lounsbury, 2012). In remuneration consulting work and remuneration governance, logics provide frames of reference and sources of meaning for the actions taken by the key actors studied in this thesis.

Logics do not emerge within a vacuum. While the emergence of the core logics was traced historically, these logics often stemmed from adjacent fields. The actors adopted, absorbed and transformed the logics from these adjacent fields (for example, the shareholder or gatekeeping logic from the field of corporate governance). The core logics identified in remuneration consulting work and remuneration governance were instrumental in shaping the norms, practices and behaviours of the key actors. The following table summarises the core and often competing logics described in each of the four substantive chapters.

Ch #	Chapter Focus	Logics
3	The emergence of executive remuneration consulting	Market Gatekeeping
4	The co-emergence of remuneration committees and remuneration consultants	Accountability Independence Gatekeeping Pay for Performance Shareholder
5	Remuneration consulting work: A field based study	Market Profession Gatekeeping
6	Pay Benchmarking Practice	Accountability Cultural – Perceptions of worth

These logics operate at different levels, for example the market logic and professions logic shapes action at the level of practice, by focusing consultants' attention to certain work activities over others, whereas the logic of accountability and independence shapes action at the institutional level. While terms such as accountability, independence, pay for performance, transparency were cited repeatedly in regulatory, governance and practice-related documents from the 1990s, the term risk did not appear in a similar fashion until after the financial crisis in relation to the banking and financial sector.

Yet, actors' concerns with personal and business risks have permeated remuneration governance work well before regulation documented the term, or practices explicitly referenced or reflected any 'apparatus'[141] (Power, 2013; cf. Gendron et al., 2015, pg. 552) of risk management. From stock dilution in the 1980s, windfall gains and rewards for failure in the 1990s, and 'no' votes on the remuneration report at AGMs in the 2000s, there are a plethora of risks and uncertainties, which actors both prepare for and respond to. For instance, reputational and retention concerns led to conformity and rigidity in executive pay design, and shareholder engagement on long term incentive design.

In the various ways in which remuneration design and governance have been studied in this thesis, there is a latent logic of risk, which pervades key actors' choices and behaviours. Much social research on risk and risk management is attentive to the risk discourse, tools, management norms, practices and cultural meaning. Yet in those less obvious spheres of organisational and political life in which risk is not explicitly documented, its philosophy may percolate and pervade (Power, 2004). This is not dissimilar from Power's (2004) observation that the 'logic of secondary or reputational risk management is beginning to percolate and pervade internal control.' Just as internal control and risk management came to be co-defined, remuneration governance may one day be co-defined with reputational and political risk.

Interpretive constructivist researchers (Power and Gendron, 2015) often peel back the layers of risk in discourse and practice. It is less often the case that researchers are attentive to risk in instances where the notion of risk is pervasive, yet embedded within terms such as accountability, or obscured by concerns with personal and corporate reputation. With respect to the latter, Power (2004) noted that 'categories such as "reputation" have emerged to characterize a newly visible kind of threat to organizations' (p.62). Much as accountability has come to encompass terms such as transparency and regulatory efficiency. These ideals are

[141] Gendron et al's (2015) notion of 'apparatus', as shaped by Power (2013), is used to designate risk management's loose and eclectic collection of principles, rational myths, instruments and practices.

then ‘achieved’ by risk assessments, pay benchmarks and best practices, while reliant upon performance measures such as key risk indicators and rankings.
Thus, the thesis taken collectively, demonstrates that risk is a latent, yet no less dominant logic, than the other core logics identified within the substantive chapters. Had risk not come to pervade regulation, corporate governance and corporate life, such an assertion may appear tenuous. However, risk has been an organising logic in UK regulatory systems for several decades. It is therefore surprising that risk has not been deeply implicated in executive pay governance prior to this.

It is embedded within the specific cultures related to remuneration design and governance (Douglas, 1992). Yet, its character is constantly in flux as it absorbs and responds to other core and competing logics. As Gendron et al. (2015) note ‘the meaning of risk and risk management is not fixed and objective but varies in time and space’ (p.553). Thus, it is not solely through a process of labelling uncertainty as ‘risk’ that risk is brought into being. It is the permeability of the idea of risk, the behaviour it affects, the practices it mobilises, and the actions, which it shapes. In ‘the risk management of everything’ (Power, 2004), risk by any other name still produces performance measurement systems, demands the ‘responsibilization’ of actors and assigns blame.

The following sections describe the rise of risk in society, regulation, corporate governance (more generally), and remuneration governance (more specifically). By whittling from the broader discourse of risk in society to risk in remuneration governance, it becomes clearer why a risk logic has largely remained undocumented, yet dominate actors sense-making processes.

7.1 Risk in Society

Risk studies have ‘exploded’ over the last few decades. The proliferation of risk studies prompted Hunt (2001) to comment on ‘the rise and rise of risk management’, Power on the ‘risk management of everything’ and Rothstein et al.

(2006) to coin the term 'risk colonisation' as a means of describing the pervasiveness of risk logics.

The academic, regulatory and practical uptake of risk and risk management has been attributed to its ambiguous nature. Wynne noted value in ambiguous terms of discourse, suggesting 'these terms are more effective than artificially precise, apparently unambiguous ones for the difficult task of representing the objects of interest to, and creating bridges of common purpose and meaning across otherwise differentiated social worlds' (2002, p.461). Risk has also been described as multi-dimensional, including psychological, sociological, political, medical, engineering, physical, statistical, biological, regulatory, and philosophical facets (Macgill and Siu, 2004).

In social studies of risk, there has been considerable work on the conceptualisations of risk in society[142], regulation[143] and governance, and the emergence of risk as an organising concept in both public and private sectors. The notion of risk is seen to organise social interactions and relations; influencing processes, practices and behaviours. Risk, as an organising logic, became a fixture in regulatory discourse in the early 2000s. Hutter (2005) links the government's adoption of risk management to the publication of the National Audit Report (2000), which in turn was influenced by the corporate governance codes introduced in the 1990s.

7.2 Risk in Regulation

From the mid-1990s onwards, government in the UK became less direct and less visible (Hutter 2005) in what some scholars have described as the rise of the regulatory state (Majone 1994; Loughlin and Scott 1997). The consequence for the UK was a fragmentation of the regulatory landscape to one involving the state,

[142] Beck (1992): risk society (suspension of time and space; risk relations versus class relations; inability to attribute blame to an individual; focus on technological, health and environmental risks).

[143] Risk Based Regulation – Julia Black, Robert Baldwin; Risk in regulation, governance - Christopher Hood, Henry Rothstein, Bridget Hutter

self-regulatory bodies[144], and governance and monitoring bodies[145]. This fragmentation was precipitated by the introduction of best practice codes in corporate governance and the 'comply or explain' doctrine introduced in the Cadbury report. The National Audit Report, which Hutter (2005) identified as a critical episode in linking risk and regulation, was influenced by the Cadbury Report (1992), Hampel Report (1998), and notably the Turnbull Report (1999) which specifically set out recommendations for best practice on internal control for UK companies.

This fragmented regulatory space was ripe for welcoming the logic of risk and risk management. The calls for transparency and accountability, in a period of new public management where business sector logics of efficiency were elevated, provided a fertile ground for risk to take root in regulation.[146] In what has been termed risk-based regulation, risk-based approaches are used as a means of rationalising and justifying the regulator's choice. Rothstein et al. (2012) state, that 'risk-based approaches are held to improve the accountability of decision making by providing formal ex-ante rationalizations of the limits of what governance interventions can, and should, seek to achieve.' With respect to the remuneration committee, drawing on market data in determining the 'going rate' for executives does not go far enough to appease politicians or the public. The politics of executive pay setting is such that the due diligence exercised by the remuneration committee is insufficient where institutional investors have a difference in opinion. As Power (2007) explains, risk based approaches enable a regulator - subject to increased scrutiny and legitimacy challenges - to stand

[144] Examples include national and international standard setting bodies

[145] Institutional Shareholder Services (ISS) and Institutional Voting Information Services (IVIS) (a part of the Investment Association).

[146] Considerable work has been done on the rise of risk based approaches in UK regulation, including the following: B. Hutter, The Attractions of Risk-based Regulation: accounting for the emergence of risk ideas in regulation (London: Centre for analysis of risk and regulation, 2005); J. Black, 'The Emergence of Risk-based Regulation and the New Public Risk Management in the UK' (2005) PL 512; H. Rothstein, M. Huber and G. Gaskell, 'A theory of risk colonisation: the spiralling regulatory logics of societal and institutional risk' (2006) 35 Economy and Society 91; J. Black, 'Risk Based Regulation: Choices, Practices and Lessons Learnt' in Risk and Regulatory Policy: Improving the Governance of Risk (Paris: Organization of Economic Co-Operation and Development, 2010); J. Black and R. Baldwin, 'Really Responsive Risk Based Regulation' (2010) 32 Law and Policy 181.

behind defensible rationales, which may only be technocratic in appearance. Market trends data and pay benchmarks are such technocratic tools.

The emotive nature of executive pay, the growing public policy concerns with wage inequality and a socially fragmented Britain have fuelled an 'expectations gap'. Despite a committee's best efforts to determine pay, executive pay packages remain controversial, and the reputational effects can be severe when corporations, committees and their advisors are seen to get pay packages 'wrong'. The shareholder 'revolts' for Bob Dudley's pay increase in a year in which oil prices fell dramatically and shareholders return were abysmal, or Martin Sorrel's 70 million pound package in spite of WPP's strong shareholder returns illustrate this 'expectations gap.' Rothstein et al. (2012) statement about the association between risk and accountability rings true in the remuneration setting. The authors stated, 'in contrast to the conventional wisdom that risk is an independent variable on which the character of accountability depends, accountability demands may be an independent variable on which the growth and application of risk ideas depend.'

To close such an expectations gap, the choices made by the regulator (or appropriate governing body) must arguably align with societal expectations. In pursuit of this, regulatory and governance bodies are constantly making choices about the management of risks, resources and reputation (Black, 2012). Black (2012) argues that successfully managing all three simultaneously can prove impossible.

7.3 Risk in Remuneration Governance

On the one hand, it is surprising that the pervasiveness of risk and risk management in 'organizational life at all levels of society' (Power, 2004, pg. 64), and notably corporate governance and new public management did not similarly appear in remuneration governance until after the financial crisis. This, especially given that remuneration governance absorbed the logics of accountability and transparency, which accompanied risk in other spheres of governance.

On the other hand, the ambiguity and multivalence of the term 'risk' meant it could be absorbed in a plethora of other rhetorical devices. As Burgess (2005) noted, 'there is no evidence that the risk management of everything brings tangible benefits to corporate and institutional actors, suggesting its appeal lies in satisfying less clear needs and insecurities.' Reputational risk is amplified by such ambiguity. It is not entirely clear how investor relations might be impacted by a negative vote on remuneration, or how the market might react to public indignation over an executives' pay package. Malsch et al. (2012) have suggested that the work of remuneration committees should be understood as more and more about risk management. Arguably, all the key actors engaged in the governance of executive pay are managing risks.

The core risks, detailed in Table 7.2 have 'ebbed and flowed' in the 25 years since the Cadbury Report first recommended the introduction of remuneration committees. Both the remuneration committees and remuneration consultancies have emerged as the 'centres for processing and handling risk' (Hutter & Power, 2005, pg.1), while nevertheless remaining 'hostage to the institutional environment in which they operate' (Power, 2004, p.61).

It is also the case that reputational risks conflict amongst the key actors. Regulatory and governance actors perceive shareholder activism in the form of 'no' votes as symbolic of institutional investor engagement and stewardship, and therefore regulatory success. Remuneration committees and remuneration consultants perceive the 'no' vote as a failure in their governance-work, the outcome of which is particularly costly for the consultant as they typically lose their post.

Executive pay governance is a field ever expanding. As new actors engage in remuneration design and governance, the net of accountability and 'responsibilization' widens. With a 'solution' to the executive pay problem out of reach, the opportunities for researchers are immense.

Table 7.2: Summary of key risks in remuneration design and governance

Timeline	Risk[147]	Threats/ Concerns as identified/ driven by:	Description
Mid-late 1980s	Economic	State actors	Thatcher's privatisation agenda was linked to market ideals and profit related pay. Executive stock options would serve two functions: (i) reward employees for increased profitability (ii) align executives and shareholders
	Incentive	Consultants	Incentive pay was meant to override union mind-set.
	Retention	Companies	Increasing presence of American (and Japanese) subsidiaries in the UK, as well as the deregulation of the Financial Services Sector exacerbated company concerns with securing and retaining top talent.
Early 1990s	'Reward for failure'	ABI, NAPF	Executives at newly privatised companies benefitting from windfall gains.
	Accountability	State actors	Public disquiet and media attention on corporate failings and historically high pay packages. Prompted the Cadbury Report to address remuneration governance. Cadbury emphasis transparency and accountability via board oversight.

[147] Labelled by the researcher, and influenced by the data.

Mid 1990s	Societal	Shareholders/Public	A pig was brought to the British Gas AGM, and labelled the 'trough of privatisation'. The disparity between executive pay and the British workforce prompts public outcry. It is this social anxiety, which prompts the formation of the Greenbury Study Group.
Mid-Late 1990s	Incentive (Short-termism)	Greenbury, ABI, NAPF	In order to avoid rewarding executives for favourable stock market volatility, performance-based long-term incentives were introduced; stock options lost favour.
Late 1990s	Accountability	State actors	Moral panic re-emerges
Early 2000s	Accountability	State actors	Corporate failures trigger re-evaluation of governance system. Accountability and pay for performance logics all furthered with the publication of the DRRR (2002). State also introduces mandatory vote on the remuneration report.
Late 2000s	Financial	State actors, media, public	Incentive systems were implicated in excessive risk taking, the subsequent collapse of the financial system, and the deepening of the financial crisis
Early 2010s	Pay for performance	Management	In response to the public loss of confidence in corporate Britain, companies introduced more strategic measure in short term incentives, and introduce malus and clawback.
2009/2010	Reputational	Remuneration consultants, Governance actors (Walker Review)	Consultants introduced the Remuneration Consultants Group and the Remuneration Consulting Code of Professional Conduct to stave off state-led regulation of remuneration consultants.

Chapter 8
Conclusion

8.0 Research questions revisited

In Chapter 1, the research questions were detailed as follows:

> (I) How did executive remuneration consultants become central in the design and governance of executive pay in UK public companies?
>
> (II) How do remuneration consultants design and governance executive pay?

Drawing on a genealogical approach, Chapter 3 addressed research question (I) by tracing the emergence of remuneration consulting work from the 1970s. Chapter 4 presents an account of the emergence of the remuneration committee and argues that the consultant and committee become inextricably linked in their governance work from the early 2000s.

Chapters 5 and 6 addressed research question (II). Chapter 5 drew on a participant observation as well as interviews at the fieldsite, described remuneration consulting. While Chapter 6 drew on archives, interview and field data to construct an account of pay benchmarking practice. The findings from these four substantive chapters are presented in section 8.2 below.

The empirical accounts in this thesis are both voluminous and overwhelmingly original. However, rich and detailed empirical accounts came at the expense of stronger theoretical contributions to academic discourse. The following subsection describes the key limitations of this research, while later sections in the chapter detail the avenues for future research and theory development.

8.1 Research Limitations

As in all research endeavours, the insights presented throughout the thesis were both enabled and constrained by the scope of the research project. This research study principally focused on the executive remuneration consultant. It was not to the exclusion of other central actors, as remuneration committees were also importantly described and analysed, however, institutional investors and the internal reward function were not sufficiently investigated. Greater attention to their role and their work in pay design and governance is needed going forward.

As noted above, while this thesis presents original and novel insights, the theoretical points of connection need further development. This is in part because the thesis was not written as a monograph in which a single line of argument permeated the entire of body of research and thus, no single theoretical frontier was challenged or furthered. The strong empirical contribution came at the expense of a strong theoretical contribution. It is the researcher's intention that this trade-off will be rectified when the chapters are converted into stand-alone academic papers.

Another limitation identified in the thesis was the construction of Chapter 5's written account, as based on the participant observation. As Ahrens and Mollona (2007) note of the ethnographic account:

> 'Underlying those texts is, however, a period of shared practical experience between the participant observer and the ethnography's subjects during which they had occasion to share at least aspects of a way of life' (p.312)

It is arguably this shared experience of the field that played a role in the ambiguity evident in the writing of Chapter 5. It is not always clear to the reader what was observed as opposed to what was interpreted by the researcher. Greater care also needs to be taken in delineating the voice of the informants, and the voice of the researcher in the field. Both the clarity of the account, and the validity of the account, is impacted by such ambiguity in field-based accounts.

Finally, in the public policy pursuit of a cohesive Britain, a bright light has been turned on pay at all levels of the workforce. Equal pay and equitable pay are at the forefront of the current debate.[148] The academic literature on pay equity was only

[148] For example, the Gender Pay Gap reporting regulations came into effect 5 April 2017, with organisations with over 250 employees being required to publish their results on their website and upload them to a Government website by 4 April 2018.

briefly presented in the Literature Review (Chapter 1). However, it is a dimension of the thinking on executive pay that cannot be marginalised going forward, especially in light of recent political rhetoric and policy, and the social consciousness centred on pay inequality.

8.2 Key Contributions

As described in the introductory and research methods chapters, the theoretical points of connection emerged in the process of data analysis, writing and conceptual leaping. The table below, also found in the introductory chapter, is retitled to reflect the notion of 'zooming in and out' (Nicolini, 2009), which occurred in this study.

Table 8.1 Contributions to academic discourse

Chapter	"Zooming in"	"Zooming out"
3	The emergence of executive remuneration consulting	The emergence of occupations, the sociology of occupational groupings
4	The co-emergence of remuneration consultants and remuneration committees	Auditor independence; Accountability, Gatekeepers and corporate governance
5	Field based study of Remuneration consulting work	Social construction of knowledge and expertise; Elite identities; Knowledge-intensive firms, organizations and work (KIFOW)
6	Pay benchmarking practice	Social processes of commensuration, Theory of pay benchmarking
7	Risk in Remuneration Governance	Risk in society, Risk management in corporate governance

Chapter 3

By tracing the emergence of executive remuneration consulting work from the 1970s, Chapter 3 highlighted the social, economic and political conditions, which enabled the occupation to flourish and stabilise by the mid-2000s. While prior research has described the consultants' emergence as a professionalisation project (Adamson et al., 2015), this chapter presented the antithesis of the traditional professionalisation story. In place of the disinterested expert driven by a 'service ideal', remuneration consultants are shaped by a dominant market logic. Consultants have not sought the hallmarks of professional status; rather consultants emulate the knowledge worker producing services within a 'managerial professional business' (Abbott, 1988; Dirsmith et al., 2015).

Future research will position this research on the emergence of a new occupation within a broader discourse on local, 'glocal' (Gibassier and El Omari, 2017) and transglobal (Falconbridge and Muzio, 2012) occupational emergence. Future work will explore whether the localised account presented in Chapter 3 is perhaps less local than originally imagined given its roots in the United States, and the spread of remuneration consulting work to other Anglo-American nations such as Canada. It has been noted in recent research on globalised professions that the interaction between the local and the global is a key relationship for the understanding of contemporary professional projects (Carruthers and Halliday, 2006 as cited in Gibassier and El Omari, 2017). Falconbridge and Muzio (2012), Fourcade (2012), and Gibassier and El Omari (2017) are key points of reference for the development of Chapter 3's discussion as these studies all explore, to varying degrees, globalised professionalisation projects.

Chapter 4

Chapter 4 traces the emergence of non-executive directors and later the rise of the RemCo in remuneration governance. Implicit throughout the narrative is a concern with the committee and consultants' independence. When the independence of remuneration committees was challenged in the early 2000s, regulators sought to strengthen pay governance by recommending that the committees appoint pay advisors independent of management. The remuneration consultant, already the well-established provider of pay data to FTSE companies, ascended to RemCo-appointed adviser, their quasi-gatekeeping role bolstering the remuneration committee's claims to independence in executive pay determination. Thus, it was in the wake of the DRRR (2002) that the independence of the remuneration committee and the expert claims and independence of the remuneration consultant became importantly interlinked.

These interlinkages were further reinforced when nearly a decade later - as the global financial crisis unfurled - both remuneration committees and remuneration consultants were implicated in allowing, or at the very least, not deterring incentive systems, which encouraged executives to take actions that deepened the crisis. In response to public and political indignation, remuneration consultants' sought to bolster their gatekeeping role.

While the chapter sheds some light on ways in which remuneration consultants appeal to the logic of independence, further work is needed here to unpack the nature of independence in remuneration consulting, especially as it contrasts to auditor independence. It can also be studied as a corollary to gatekeepers' independence.

Chapter 5

Chapter 5 describes the ways in which executive remuneration consultants build knowledge and lay claim to expert status. The chapter argues that executive remuneration consulting draws heavily on the professional service firm model, which in turn draws on the training and apprenticeship models used within accounting and law professions. And much like management consulting, remuneration consulting 'lacks the 'corpus of abstract knowledge' (Sharma, 1997) that differentiates and defines a profession. Remuneration consultants possess 'weak knowledge' and thus continually face the need to negotiate with the client their status as 'expert.' In need of continually negotiating the legitimacy of their claims to expertise, ExComp pursued four key strategies to support their knowledge claims: (i) they recruit from elite universities, (ii) they have invested heavily in building a strong database and superior data analytics, (iii) they continue to innovate product and service offerings in response to market and governance shifts, and (iv) they appeal to the ideals of professionalism.

These four strategies, collectively, comprise the remuneration consultants' system of knowledge. It is not the case that data collection is then superseded by data analysis and then client engagement work. Each phase of work influences and is influenced by successive phases of work (Power, 2015, p. 44). It is the accretion of the consultants' technical skill-set, absorbed and altered at the level of practice, and then delivered to the client by the 'professionalised' advisor which constitutes the remuneration consultants' claim to executive pay knowledge and expertise. Going forward, the researcher intends to more effectively engage with the similarities and differences between consultants' and auditors' systems of knowledge.

Chapter 6

In Chapter 6, the consultants' tools – namely pay surveys and pay benchmarks - were investigated for their role in constructing the market for executive talent and, in part, enabling the upward ratchet of executive pay. Pay benchmarking, like accounting, 'accords a particular form of visibility to events and processes, and in so doing helps to change them' (Miller, 1994, p. 2). The chapter contributes to our understanding of the role, and more importantly, the agency of pay benchmarks in the dynamic processes of pay determination.

What is left underexplored is the disciplinary power of pay benchmarks. This chapter touches briefly on the surveillance and normalisation processes which have emerged in response to pay benchmarking practice. Further analysis would explore the benchmark's ability to translate qualities into quantities, which is not dissimilar from the study of accounting or statistics, which also demonstrates this ability to translate.

There is the aspiration to develop a fuller account of the agency of the benchmark. In the extant remuneration literature, there has been an emphasis on human actors. However scholars (especially in ANT and STS) have challenged the dichotomy of human and material action. In what has been described as a 'flattening' of the social world, actor network theorists do not privilege human actors over material actors. As Callon and Law (1997) noted:

> 'Often in practice we bracket off non-human materials, assuming they have a status which differs from that of a human. So materials become resources or constraints; they are said to be passive; to be active only when they are mobilized by flesh and blood actors...But why should we start out by assuming that some of these have no active role to play in social dynamics?' (p.168).

Future iterations of this chapter will be more attentive to the material actors and their agency is executive pay practices, and furthermore, the performativity of the pay benchmark.

8.4 Future Work

In addition to the future work identified within each substantive chapter and reiterated or furthered above, there are two additional avenues for future work. First, as this thesis only presents a partial network of actors engaged in executive pay design and governance, the aspiration to develop the network of actors more fully remains at the forefront of my mind. In the scope of this thesis, greater depth was achieved in describing and analysing remuneration consultants and remuneration committees.

There is much more which can be done in analysing institutional investors as well as the internal reward function. With respect to the latter, there is an opportunity to develop a comparative narrative between the internal HR function and the external consultant. Given that the field of human resources/ reward management have pursued a professionalisation project, it is an interesting setting in which to compare and contrast their work activities and relevance vis-à-vis the external pay consultant.

Second, there are important links to be made with the management control systems literature. Within an organisation, incentive design choices are often premised on a deeply rooted concern with motivating executive to achieve desired performance outcomes, for which they are in turn rewarded. The link between task and achievement must be tightly linked for incentive systems to work. Yet, time and again, consultants have commented that executives simply are not 'motivated by the money.' While research has largely sought answers to whether pay is linked to performance, it may be that scholars must revisit fundamental and foundational assumptions about what intrinsically motivates executives leading public companies.

Appendix A: Archival Data Sources

NAME	COMPANY	ROLE	PREVIOUS 1	PREVIOUS 2	PREVIOUS 3	PREVIOUS 4	QUALIFICATIONS	NOTES	LinkedIn
Chris Niland	NBS, Aon Hewitt	Partner, 11 years	RREV, Remuneration specialist	Watson Wyatt, Consultant	Towers Perrin, Consultant		BSc Econ (Warwick)		Financial Services
David Tankel	NBS, Aon Hewitt	Partner	Managing Partner of NBS consultants before take over by Aon	Barrister, Lamb Building			Barrister		Management Consulting
Andrew Udale	NBS, Aon Hewitt	Partner	NBS consultants since 1989	KPMG			ACA, Accounting		Management Consulting
Andrew Page	NBS, Aon Hewitt	Partner	Kepler (2008- 2011)	Prudential plc HK	Director, KPMG	Consultant at Towers Perrin and SCA Consulting	Oxford		
David Tuch	NBS, Aon Hewitt	Partner	NBS Consultants since 2006	Director, Deloitte and Touche	Senior Consultant, Hogan Lovells	Partner, KPMG	Law degree		Human Resources
Matt Higgins	NBS, Aon Hewitt	Partner	NBS Consultants since 2003	PwC, Manager			BA Accounting (Exeter)		Management Consulting

Appendix B: Fieldwork dates

WK.	Monday	Tuesday	Wednesday	Thursday	Friday
1		Day 1 22 March 2016 9:45am-4:30pm	Day 2 March 23, 2016 10:00am-5:00pm	Day 3 24 March. 2016 10:00am-4:30pm	
2	*Bank Holiday*	Day 4 29 March 2016 9:30-6:00pm	Day 5 30 March, 2016 8:00-3:30pm	Day 6 31 March, 2016 10:00am-5:30pm	
3	Day 7 4 April, 2016 8:30am-3:30pm	Day 8 5 April 2016 9:00-11:00am	Day 9 6 April 2016 10:15am-5:15pm	Day 10 April 7, 2016 11:00am-12:00pm	
4	Day 11 11 April 2016 8:00am – 4:00pm	Day 12 12 April 2016 8:00am-2:00pm	Day 13 13 April 2016 9:30-4:30pm		
5	Day 14 18 April 2016 8:00am-4:00pm	Day 13 19 April 2016 8:00am – 5:00pm	Day 14 20 April 2016 12:00-4:00pm	Day 15 21 April 2016 11:00am-4:30pm	
6			Day 16 27 April 2016 7:30-10:30am	Day 17 28 April 2016 10:00am-1:30pm	Day 18 28 April 2016 11:00am- 4:00pm
7		Day 19 3 May 2016 8:00am-4:00pm	Day 20 4 May 2016 1:00-4:30pm		Day 21 6 May 2016 9:00am-3:00pm
8			Day 22 11 May 2016 10:00am – 4:00pm	Day 23 12 May 2016 9:00am-4:00pm	Day 24 13 May 2016 8:45am-2:00pm
9	Day 25 16 May 2016 10:30am-4:30pm	Day 26 17 May 2016 9:30am-2:00pm			Day 27 20 May 2016 10:00am- 6:00pm
10	Day 28 23 May 2016 12:45-4:45pm	Day 29 24 May 2016 1:00-7:00pm	Day 30 25 May 2016 7:45am-4:45pm		
11	*Bank Holiday*	Day 31 31 May 2016 8:15am-4:45pm	Day 32 1 June 2016 2:00-4:30pm	Day 33 2 June 2016 8am-3pm	Day 34 3 June 2016 2:00-5:45pm

Appendix C: Interviews with *ExComp* Consultants

#	ROLE	DATE
1	Managing Partner	15 July, 2016
2	Partner	19 April 2016
3	Partner	4 May 2016
4	Principal	21 May 2015
5	Principal	6 May 2016
6	Principal	23 May 2016
7	Principal	29 August 2017
8	Associate	5 April 2016
9	Associate	6 April 2016
10	Associate	20 April 2016
11	Associate	13 May 2016
12	Senior Analyst	9 May 2016
13	Senior Analyst	12 April 2016
14	Senior Analyst	19 April 2016
15	Senior Analyst	4 May 2016
16	Senior Analyst	10 May 2017
17	Analyst	18 April 2016
18	Analyst	20 April 2016
19	Analyst	27 June 2016
20	Analyst	29 August 2017

Appendix D: List of internal documents (In alphabetical order)

DOCUMENT
Background pack
Benchmarking Methodology
Clawback clause
Consultant’s Confirmation of Objectivity and Independence
Institutional History (recapped)
LTI Comparison
LTI prevalence levels
LTI usage trends
New Starter training schedule
Option Overview
Performance measures
Periodical publications (2000-2015)
TSR Calculation Methodology

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