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Corporate Governance and Executive Pay: An Integrative Approach

Sophie Lee

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Abstract

Corporate governance and executive pay have been much studied in the past as separate topics. The present study examines both topics simultaneously and endeavours to draw from this unified view a synthesis that can throw light on future governance reforms. Most prior research has examined the relationship between various governance mechanisms and company performance but unambiguous links have proved difficult to establish empirically.

The study investigates executive compensation qualitatively and quantitatively in the context of corporate governance. It first conducts a critical review of the literature to uncover potential reasons for the extant conflicting results and to gain an up-to-date understanding of the role and effects of pay. This provides a perspective for interpreting the results of the second part of the study: a detailed analysis of the relationship between the remuneration of FTSE 100 directors and company performance during 2004-2009. The exercise seeks to shed light on whether increased governance activity has influenced pay practices among UK's largest companies.

Despite far-reaching governance reforms, the study finds that executive pay is still largely determined by company size and there are no signs of the pay-performance relationship becoming stronger over time. It further reveals that CEO pay is less performance-related than other directors and provides evidence that total cash is the pay element most strongly associated to performance.

Taken together, the findings suggest that the UK's governance system might be fragmented and incoherent, and that the flexibility offered by the 'comply or explain' approach is not fully exploited. They also lend support to the contention that managerial power and multiple agency problems affect board independence and the effectiveness of governance mechanisms, including executive pay. It closes with some considerations to integrate any lessons learned into pointers for future reforms.

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1 Introduction

Fashions in corporate governance¹ around the world have changed considerably over the years since Berle and Means first articulated the problem of separation of ownership and control in large modern corporations in 1932 (Filatotchev et al 2007; Girma et al 2007; Groenewegen 2004; Armour et al 2003). While the latest surge in governance activity has predominantly been fuelled by a troubling series of high-profile accounting irregularities and financial scams that surfaced in early 2000s, the groundwork for the current movement really dates back to the savings and loans crisis of the 1980s in the United States and the spectacular bankruptcies that arose in the subsequent years. These early incidents of ethical misbehaviour and reprehensible conduct not only severely undermined the modern corporate system but, more specifically, also exposed the pervasive weakness in oversight and lapses in controls and monitoring, thereby prompting urgent calls for governance standards to be strengthened.

Much in keeping with the trend, it was the unfolding of notorious scandals such as Robert Maxwell's swindling of the Daily Mirror pension fund and the collapse of Polly Peck, Bank of Credit and Commerce International and Barings Banks in the early 1990s that propelled UK corporate governance right to the forefront and spawned the process of reform. In the ensuing decade, the national regime was in a state of flux and underwent a period of rapid transition that witnessed a proliferation of best practice codes and policy initiatives to reinforce the governance framework (Armour et al 2003; Ho 2005; Perkins and Hendry 2005). Effectively, the prescriptions for UK proceduralised governance were articulated primarily through three reports: Cadbury Report (1992), Greenbury Report (1995) and Hampel Report (1998).

The report by Cadbury (1992) addressed both the financial aspects of governance as well as issues related to the structure of corporate boards, while the Greenbury Report (1995) had the narrower remit of reporting predominantly on executive pay. A year later in 1996, the Hampel Committee was established to review the guidelines laid down by the earlier codes. The final report published in 1998 contextualised the previous recommendations, with the emphasis

¹ *Corporate governance is generally regarded as the systems, structures and processes established by corporate entities for ensuring proper accountability, legal compliance, probity and openness in the conduct of an organisation's business. The basic principles of corporate governance include transparency, accountability, fairness and responsibility founded upon the concept of disclosure to encourage the necessary trust and confidence of shareholders. Organisations tend to work within the parameters set out by national laws and regulations, economic goals and expectations of stakeholders. Factors such as government rigidities, legal and cultural settings also often play a part in explaining the variation in local governance practices (Rebérioux 2004; Aguilera 2005). The definition and objectives of corporate governance will be discussed in detail in Chapter 2.*

firmly on principles of good governance (the ‘comply or explain’ approach)² as opposed to explicit regulatory rules that may stifle the market and business development.

The reform process gathered momentum at the turn of the millennium in the wake of Enron/Arthur Andersen and WorldCom serious fraud allegations. At the same time, scores of share options backdating frauds came to light³, revealing even more fatal governance flaws such as a severe laxity of external audit functions. As a result, the following few years saw the introduction of new statutory instruments and provisions in many economies directly aimed at combating financial malfeasance and restoring the credibility of the economic system. For example:

United Kingdom

- Combined Code (2003)
- IFRS2 under International Financial Reporting Standards

United States

- Sarbanes-Oxley Act (2002)
- FAS 123 R under Generally Accepted Accounting Principles (US GAAP)

Meanwhile, media interest in the integrity of corporate boards and management began to intensify. It is evident that the British press particularly relishes reporting on executive directors’ pay packages under ‘fat cat’ headlines, and stories about sharp salary rises, overly-generous severance payments or the magnitude of incentive awards almost never fail to attract readers’ attention. The incessant barrage of coverage clearly added to public outrage over the perceived ‘unruly’ nature of modern-day governance, and worsened the already waning public confidence in capital markets.

² UK corporate governance operates on the basis of ‘comply or explain’ whereby compliance with the code of best practice is not mandatory but companies are required to produce a statement in their annual reports, detailing the extent of their application of the code, together with an explanation in the event of non-compliance (Listing Rules 12:43A). This model, which has been at the heart of UK governance since the Cadbury Report was issued in 1992, advocates a more flexible approach that allows companies to adapt the guidelines to suit their circumstances in a competitive environment and encourages communications between the board and shareholders.

³ Options backdating had been identified at 130+ companies and led to the firing/resignation of some 50 directors and even the collapsing of the entire business. Notable companies embroiled in the scandal include Broadcom, United Health, One.Tel, Nortel, Apple and Dell (Burke 2007 p63).

As investor trust has ebbed amid all the upheaval, there has been mounting institutional pressure⁴ on businesses to focus beyond mere routine compliance and towards a more adaptive corporate governance approach whereby practices are tailored to individual company needs in support of an efficient structure that caters for improved management accountability and long term shareholder value creation. More than ever before, the board is expected, as a first priority, to effectively serve shareholder interests. The reasons for this emphasis on shareholders in the UK are its Anglo-Saxon legal tradition and its industrial ownership structure which is characterised by dispersed shareholding, both of which have made the UK committed to the 'outsider' model of governance where the focus is strictly on the interests of shareholders.

Thus, governance policies adopted in the UK seek primarily to protect and maximise shareholder wealth. It is therefore not surprising that reform efforts have largely been targeted at enhancing the alignment of shareholders' and senior executives' interests, mainly through internal structural governance mechanisms that have two main avenues of approach. First, there are measures that aim at heightening controls and monitoring of management; such as board composition and size, independence of non-executive directors, and improving transparency and disclosure rules. Second, there are measures related to executive remuneration and service contracts; such as increasing share ownership of senior management through equity rewards promoting long-termism by using incentive vehicles that have a deferral requirement, tightening severance payout conditions, and shortening notice periods. Most recently, for the first time in the history of the governance of executive pay, there has been the introduction of penalties and claw-back provisions for non-performance or poor performance.

1.1 Theoretical background

The recent changes in expectations attached to boards of directors and executive pay packages, and parallel changes in corporate governance measures have also been accompanied by a resurgence in academic literature on corporate governance and executive compensation. For some 50 years, corporate governance and executive pay have come under intensive theoretical and empirical discussion by academics from an array of disciplines, ranging from accounting to

⁴ *Companies (and the board of directors to some extent) used to be in a stronger position to solidify existing executive compensation practices or disseminate novel ones, and thereby setting certain trends and even levels. In management literature such tendencies are referred to as institutional pressures where companies are pressured into adopting distinct remuneration practices, arrangements and procedures for enticing executives as a way to signal alignment with both widely held corporate conduct standards and competitive/market norms (Barkema and Pennings 1998).*

economics to law to finance and organisational strategy (Murphy 1999; Canarella and Nourayi 2008), employing a wide variety of theoretical frameworks, including tournament theory, managerial power theory and stewardship theory. However, meta-analytic work, such as that of Devers et al 2007 (see Appendix A), has indicated that a significant proportion of the extant literature is 'firmly situated within an agency theory perspective and its assumption of the inherent potential for an adversarial principal-agent relationship' (O'Neil 2007 p692).

Originated from economics and finance, agency theory has long been applied to explain the issue of separation of ownership and control within companies. In essence, agency theorists consider an organisation to be a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who they hire to control those resources productively. The theory is based primarily on the suggestion that agents have more information than principals and that this information asymmetry interferes with the ability of the principals to know whether their agents are properly safeguarding their interests. Further, it is assumed that principals and agents both tend to act rationally in that they will use the contracting process to maximise their wealth. In other words, as agents also have self-seeking motives, that are not aligned with the principals', they may be tempted to take the opportunity to act in their own self interest rather than in the best interests of the company (Jensen and Meckling 1976).

This dilemma was termed 'the moral hazard problem' by the pioneers of this field, Jensen and Meckling (1976), whose work remains highly regarded by academics today. In agency theory, moral hazard refers to the circumstances in which the principal cannot be sure if the agent has put forth maximal effort or is shirking on the required duties (Eisenhardt 1989). That is, the hazard is the risk created by opportunism. Moral hazard can also refer to the misappropriation of a company's resources by the agent, the simple avoidance of tasks required for the meeting of objectives (i.e. shirking), or the pursuit of personal motives such as career progression, instead of focusing on the needs of the company.

Another type of agency problem is adverse selection. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents the ability to do the work for which he or she is being paid (Eisenhardt, 1989). That is, the risk that the person will not be up to the task and/or the job. This occurs when 'the principal does not have access to all available information at the time a decision is made by an agent', and is thus 'unable to determine whether the agent's actions are in the best interests of the company' (Sarens and Abdolmohammadi 2007 p3).

One interesting point to note here is that it is not only academics who have taken to agency theory: regulators policy makers and investors have all clearly drawn on the arguments of agency theory to generate an extensive body of governance guidelines and codes. For example, it is stated in Cadbury's report that 'boards of directors are accountable to their shareholders' (1992 3.4 and 6.1), while Greenbury speaks of 'aligning interests of [executive] Directors and shareholders' (Greenbury 1995 1.15). And, again, the Hampel report refers frequently to 'shareholder value' and the explicit objective of, 'the greatest practicable enhancement over time of their shareholders' investment' (Hampel 1998 1.4 and 1.6). Broadly, most governance guidelines drawn up in the UK 'make recommendations on appropriate board structures and processes that protect the interests of the owners, and reconcile them with those of management and other stakeholders' (Ho 2005 p213; Erturk et al 2008).

1.2 Common research questions

The recent literature has largely focused on two areas of inquiry: the effectiveness of specific board structural and procedural measures on one hand and, on the other, the determinants of directors' remuneration, particularly the relationship between executive pay and company performance.

On the former issue, the literature is vast. A large proportion of the research directly examines the relationship between corporate performance and various board attributes such as board size (Eisenberg et al 1998), independence of non-executive directors (Bhagat and Black 1999), board structure (Fosberg and Nelson 1999; Dedman 2002) and board composition (Hermalin and Weisbach 1991; Beatty and Zajac 1994; Dalton et al 1998; Wagner et al 1998; Rhoades et al 2000). However, despite attempts, researchers have so far failed to demonstrate consistent results. In fact, none of the studies mentioned here produced any encouraging findings. Rather, the majority showed no correlations at all or a small yet 'conflicting' link.

On the issue of directors' remuneration, academics tend to follow in the footsteps of the seminal work by Jensen and Meckling (1976) and analyse the causes and effects of the agency problem and the efficacy of executive pay in driving the desired performance (Veliyath 1999). The majority of studies seek to explain the structure of pay and its relationship to company performance, while some investigate the effectiveness of incentive pay in controlling the conflicts and constraining the costs associated with the misalignment of interests between shareholders and management. At its core, agency theory considers executive compensation to be an effective means of addressing the conflict of interest brought about by the separation of

ownership and control, and argues that directors' behaviours can be aligned with the needs of shareholders through appropriately designed pay structures and the use of incentive rewards which in turn should drive superior company performance. It is therefore not difficult to understand why so many researchers examine their pay related questions through the lens of agency theory.

1.3 Research rationale

There are two main considerations that have highlighted the importance of further research being applied to corporate governance and executive pay. The first is that, after over half a century of research into this subject, results are still mixed and of limited application. This problem is particularly acute in the UK, thus, aiming for greater clarity and filling in the gaps of the existing body of UK literature seems a more than worthwhile objective. The second is the growing social importance of corporate governance - scandals continue to emerge despite years of reform, and their impact is no longer confined to a few within large organisations but affect the global economy. The problem has become so pervasive that its effects are now felt by communities and individuals across the world, with the UK being no exception.

1.3.1 Historical research results

Given the academic significance attached to Jensen and Meckling's contribution, it would seem reasonable to expect there to be considerable empirical evidence in support of their arguments. However, research findings within existing literature are far from uniform (Bebchuk and Fried 2004; O'Neill 2007; Rutherford et al 2007; Canarella and Nourayi 2008). As has been said, in spite of the numerous research attempts to test the various agency theoretical predictions, there still does not seem to be much material and conclusive evidence on either the effectiveness of executive compensation in controlling the conflict of interests problems or the magnitude of the pay-performance link (Keasey and Wright 1993; Conyon and Leech 1994; Hallock and Murphy 1999; Tosi et al 2000; Thompson 2005). In particular, the tenuous relationship between pay and bottom-line performance and returns to shareholders is a major predicament and one that continues to baffle academics and governance policy makers alike.

It is evident that demonstrable and unambiguous links between corporate governance mechanisms, such as board structure and executive pay, and performance have proved to be difficult to establish empirically, a lack of convergence that is reflected in the continuing

disagreements (Main et al 1996; Buck et al 2003; Conyon et al 2001; Gregg et al 2005; Girma et al 2007; Erturk et al 2008). Consequently, the general question regarding how appropriately to reward and retain valued executives while mitigating the risks of dissipating shareholder funds through unjustifiable pay provisions is, as yet, far from being fully answered.

This issue of inconclusive and inconsistent research findings has long been a matter of concern but is undoubtedly becoming increasingly pressing given the strong advocacy by governing bodies and investor groups of measures to improve the board monitoring function and tying pay to performance in recent years. Moreover, UK research in these areas is still relatively scant in comparison to that conducted in the US. And the findings across the board are equally divergent with the result that the effectiveness of individual governance drivers and the reform movement as a whole remains at best uncertain, at worst, unknown. What is known though is that, overall, the corporate system remains flawed even after almost two decades of substantive efforts to overhaul the governance regime. The clearest possible indication of this is the recent financial and banking crisis.

So in effect, corporate governance continues to dominate headlines, and to form the basis of debates in Parliament. At the same time, the row over the soaring rates of executive pay is showing no sign of abating, leaving the public's perception of large corporations and those who manage them altogether more negative. Still, even as recently as 2012, new scandals such as the alleged fixing of the London InterBank Offered Rate (LIBOR) by a group of commercial banks continue to emerge, while large salary increases and bonus payouts are still commonplace among senior executives, even in times of recession and widespread unemployment. Although the UK has seen a gradually increasing academic debate since the early 1990s, more research is clearly needed to help determine whether the governance measures proposed and implemented recently are sound or whether regulators are tackling not just the wrong issues but also employing the wrong solutions.

Together, the above observations do lend convincing support to the contention that corporate governance is a complex subject beset as much with ethical and legal considerations as theoretical and empirical uncertainties; even after years of reform and research efforts many long-standing issues surrounding the structure, role and performance of the board, as well as executive pay remain unresolved and hence warrant more refined elucidation.

1.3.2 Widening impact of corporate governance

Moreover, as many of the world's economies face the prospect of further uncertain - in some cases deteriorating - market and trading conditions through 2012 and beyond, it seems all the more important for additional corporate governance and executive pay research to be performed to help prevent debacles similar to recent events in the financial service sector from happening again in the future.

Although some would argue the recent downturn of the economy in the UK and the high degree of corporate malpractice can be attributed to global factors, it seems likely that many more would suggest that local factors also played a major role. Arguably, the 'double dip recession' that the UK experienced between 2009 and 2012 and the string of banking scandals that have unfurled during that period were all the result of poor governance and weak internal controls which allowed executives to behave irresponsibly.

While the 'comply or explain' approach to corporate governance has been considered desirable both in the UK and abroad (for example, Australia, Canada have both followed the UK approach and adopted similar best practice guidelines), some critics now think that the UK may have been too soft, and blame the persisting problem on the reluctance of successive Governments to regulate businesses too intensively in what might be seen as interfering with the smooth running of the economy.

Importantly, the problems experienced in developed capitalist economies such as Britain and the United States have become international concerns. The two decades have seen not only the emerging markets of countries (e.g. India and China) reform their governance regimes, but also smaller developing economies (e.g. Mongolia and Armenia) undertake steps to improve their governance, legal and institutional frameworks with the aim of securing long term economic stability and growth (OECD 2001). Corporate governance has clearly turned into a global issue that should not be ignored and increased attention and sustained research activity, both nationally and internationally, are clearly required.

In addition to the above consideration, it is also important to reiterate that there has been rapid development in governance and executive pay in the past 20 years, during which time an unprecedented number of changes have taken place. While traditionally business was subject mainly to soft laws and guidelines, now there are already a number of regulatory interventions in place. The Directors' Remuneration Report Regulations ('DRRR' 2002) was the first attempt

by the government to legislate governance requirements and has since been updated (Statutory Instrument 401 came into force for financial year 2008/2009 or later). Additional rules are also in the process of being implemented. For instance, the UK government has announced in early 2012 that it is to make some forms of financial mismanagement a criminal offence.

Many will applaud the incessant revision and introduction of governance measures as making progress. Yet the issues that the nation is facing can be aggravated by the speed with which the current environment is changing - what might be termed the problem of pace. A new initiative that looks sound when it is introduced and implemented may, in some circumstance, look hard to justify or indeed irrelevant a few years or even months later. It thus becomes crucially important to consistently update research efforts to capture the effects of the latest developments so that their lessons can be integrated.

There is no question that UK regulation has increased in its scope and depth over recent years and that the policy initiatives have generally been regarded internationally as innovative in terms of the extensive use of soft-law mechanisms as well as legal regulation where deemed appropriate. Notwithstanding, corporate malpractices have continued to multiply. Could it be the case that the UK's principles-based approach is too 'laissez faire' to be effective? That being said, however, countries that have adopted a rules-based approach (e.g. the United States) appear to have fared no better. So it seems probable that the problem cannot be solved by simply implementing more legislative rules. Additional legal regulation may be paramount in certain aspects of governance, but, as aptly put by Erturk et al (2008), 'public policy should be guided by looking more holistically in terms of understanding the interactions among different aspects of corporate governance, as well as the potential complementarities between hard and soft forms of regulation'.

Besides, there is also the issue of growing public disquiet and intense media scrutiny over the actions of banks and directors' pay, both of which have continued unabated throughout the past three decades. Recent increased disclosure requirements and the resulting improved transparency have only added to the public outrage at the way companies are governed and the way executives are remunerated (Dyck and Zingales 2002). Senior figures at major public companies, the chief executive in particular, have been widely criticised by the press and the general public for being ruthless and greedy, and having too much power and too little accountability. The more cynical critics even accuse governments of fearing to implement tough

regulation of businesses because they are dependent on large corporations for party political donations and other means of support.

One potential effect of this intense public anger and media attention is that a certain amount of public misunderstanding and misinformation has come into circulation, to which even the serious financial print media has proved not to be immune. This in turn has resulted in vocal demands for change in governance which appears to be influencing the way in which government and policy makers deal with the issue. It thus becomes more important than ever to have robust research to provide a valid basis in evidence for regulation and legislation.

All in all, it is evident that after more than 50 years of corporate governance and executive pay research, along with 20 years of rigorous governance reform, there are still many key issues unresolved, many important questions unanswered. Put simply, the ever-changing governance landscape coupled with elevating levels of fraudulent activity and lack of robust results from well-founded UK research, together with heightened public and media scrutiny of corporate practices and excessive directors' remuneration, all adds up to provide a fertile and timely setting in which to examine the evolving nature of executive pay as a corporate governance mechanism.

1.4 Research scope

Against the compelling yet controversial background described above, this study is primarily concerned with one of the key corporate governance mechanisms: executive pay. Its focus, specifically, will be remuneration of FTSE 100 directors over the period 2004 to 2009. Before delving into the more specific parameters of the research, it is useful to first put executive pay into context by reviewing the latest trends and levels among FTSE 100 companies.

1.4.1 Current executive pay practices and trends

A brief summary of the current practices⁵ is outlined for the following aspects of executive compensation:

⁵ *Information and data sources: Thomson Reuters (remuneration data from company annual reports and accounts); Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008; KPMG Survey Of Directors' Compensation 2008; PricewaterhouseCoopers - Executive Compensation – Review of the Year 2005, 2008 and 2009.*

- Remuneration levels
- Executive pay differentials and company size
- Pay increase
- Fixed pay versus variable pay
- Annual bonus
- Long term incentives.

1.4.1.1 Remuneration levels

During the period under study, 2004 to 2009, despite the economic downturn, executive remuneration continued to increase. Table 1 below summarises median market practice in FTSE 100 companies for chief executives, finance directors and other executive directors in 2008.

Table 1 FTSE 100 median market practice in 2008

	CEO	Finance Director	Other Executives
Base Salary Increase	8%	7%	7%
Base Salary (£000)	760	469	420
Annual Bonus			
Maximum bonus (% of salary)	150%	132%	134%
Target bonus (% of salary)	75%	75%	73%
Actual bonus (% of salary)	77%	81%	139%
Commonest performance measure	Personal criteria	Personal criteria	Personal criteria
Share Option Plans			
Maximum award (% of salary)	300%	300%	250%
Actual grant (% of salary)	192%	235%	151%
Commonest performance measure	EPS growth	EPS growth	EPS growth
Performance Share Plans			
Maximum award (% of salary)	250%	250%	207%
Actual award (% of salary)	211%	157%	153%
Commonest performance measure	Relative TSR	Relative TSR	Relative TSR
Deferred Annual Bonus Plans			
Maximum deferral (% of bonus)	100%	100%	100%
Typical matching ratio, if applicable	1:1	1:1	1:1
Deferral period	3 years	3 years	3 years
Commonest performance measure on matching shares	EPS growth	EPS growth	EPS growth
Total Actual Remuneration (£000)	2,290	1,492	1,280

Source: KPMG Survey of Directors' Compensation 2008

While the base salaries of FTSE 100 directors increased by around 7%-8%, total remuneration increased by around 10%-14% in 2008. According to Hewitt New Bridge Street (2008), increases in base salary levels were offset by lower pension provision as companies continued to move away from more valuable defined benefit arrangements; whereas the main causes for this increase was the higher level of variable pay. In general, fixed pay levels appeared to have remained relatively static. Further, the structure of the remuneration was relatively similar to the previous three years, with variable pay making up approximately 55%-60% of the total package. Of the variable element, around 60% was linked to long term performance (compared to 50% in 2003).

1.4.1.2 Executive pay differentials and company size

In line with the literature, practitioners' market surveys also reported that company size is one of the key drivers of UK executive compensation. Figure 1 below demonstrates how pay levels, in 2008, differed with company size by showing data from the FTSE 100 as a whole, as well as the FTSE 30 and FTSE 31-100 separately. An interesting point to note here is that the median market capitalisation of the FTSE 100 index as a whole was £5.7 billion in the year under survey, however, the FTSE 30 (i.e. the largest 30 companies in terms of market capitalisations) had a median market capitalisation of £26 billion and FTSE 31-100 of only £4 billion. This gap in size was reflected in the gap between pay levels in the FTSE 30 and the rest of the FTSE 100, for example, CEO packages in the FTSE 30 are typically worth over twice those lower down the FTSE 100 index.

Figure 1 Median total remuneration for FTSE 100 by size in 2008

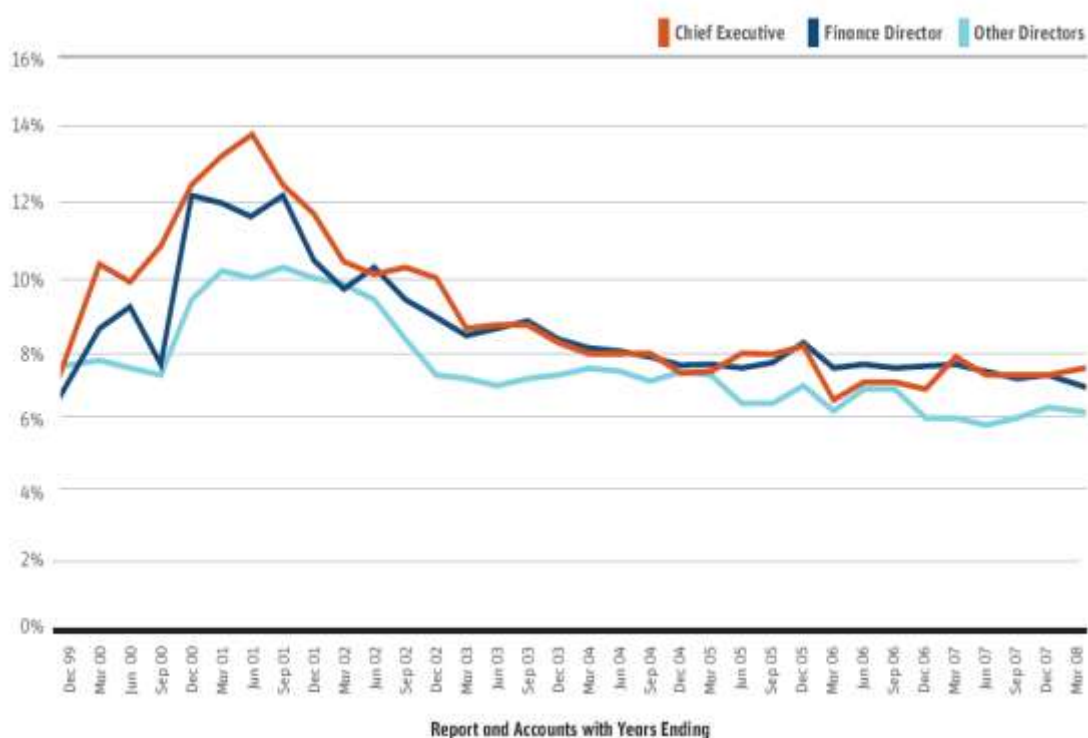


Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

1.4.1.3 Pay increase

The historic rates of salary increase for FTSE 100 directors are set out in Figure 2 below. It shows that, since 2001, the annual rate of salary increase had fallen slightly over time and that the rate for 2008 was around 7%-8%. This rate was broadly similar to the increases seen in prior years. While there seemed to be a downward trend, the average salary increase for the general workforce during the same year was considerably lower at only 3.7% (National Office of Statistics 2008). This disparity attracted the attention of the increasingly frustrated wider working population, but public hostility towards executive pay was further exacerbated by the inflation figure published later that year (4.8% - Retail Prices Index between August 2007 and August 2008, National Office of Statistics). To make matters worse, total remuneration levels were increasing more rapidly than base salary levels as shown in Table 2. As already mentioned, the growing prevalence of the use of incentive compensation was considered to be the key attributing factor.

Figure 2 FTSE 100 median salary increases 1999-2009



Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

Table 2 FTSE 100 median increases in total remuneration

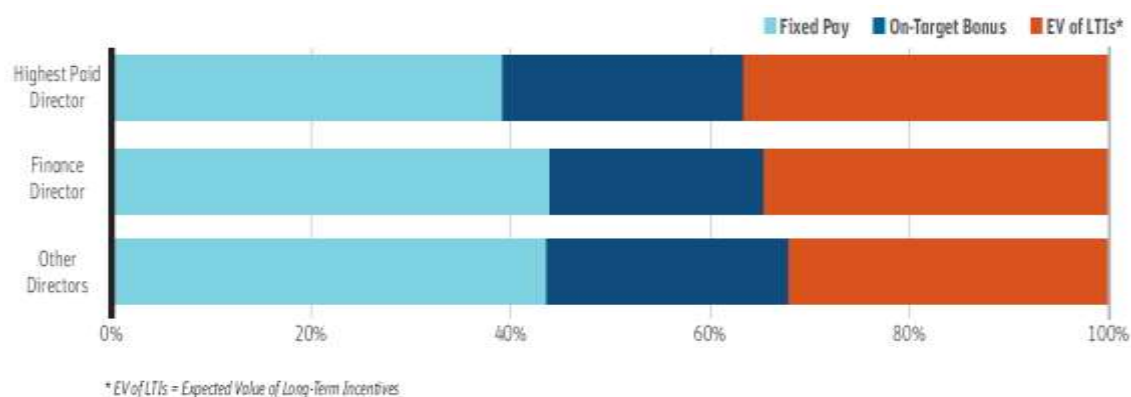
	2004	2005	2006	2007	2008
CEO	13%	11%	13%	13%	14%
Finance Director	12%	11%	15%	11%	9%
Other Executives	8%	13%	12%	10%	10%

Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

1.4.1.4 Fixed pay vs variable pay

For decades, both shareholders and governance bodies have been encouraging companies to have a ‘pay for performance’ culture whereby remuneration is closely related to the achievement of strategic goals. It is evident from recent corporate governance codes that incentive pay is seen as an important mechanism to align the interests of executives to those of shareholders and to drive performance. Figure 3 looks at the relative weighting between fixed and variable pay, as well as between short term bonus and long term incentives. It shows that, in 2008, around 60% of an executive director’s pay package was dependent on performance (i.e. incentive pay). Back in 2003, only 45% was variable, with over half of the package being guaranteed (i.e. fixed). Whether the increase in the use of incentives actually improved the relationship between executive pay and performance is the key question that will be addressed in later chapters.

Figure 3 FTSE 100 fixed vs variable pay by role

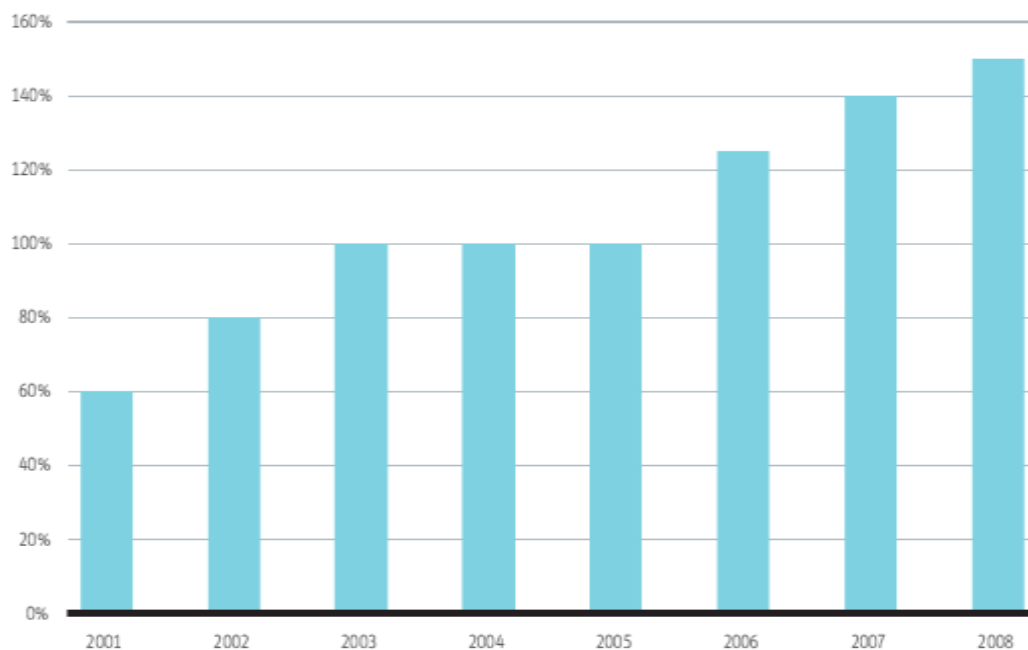


Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

1.4.1.5 Annual bonus

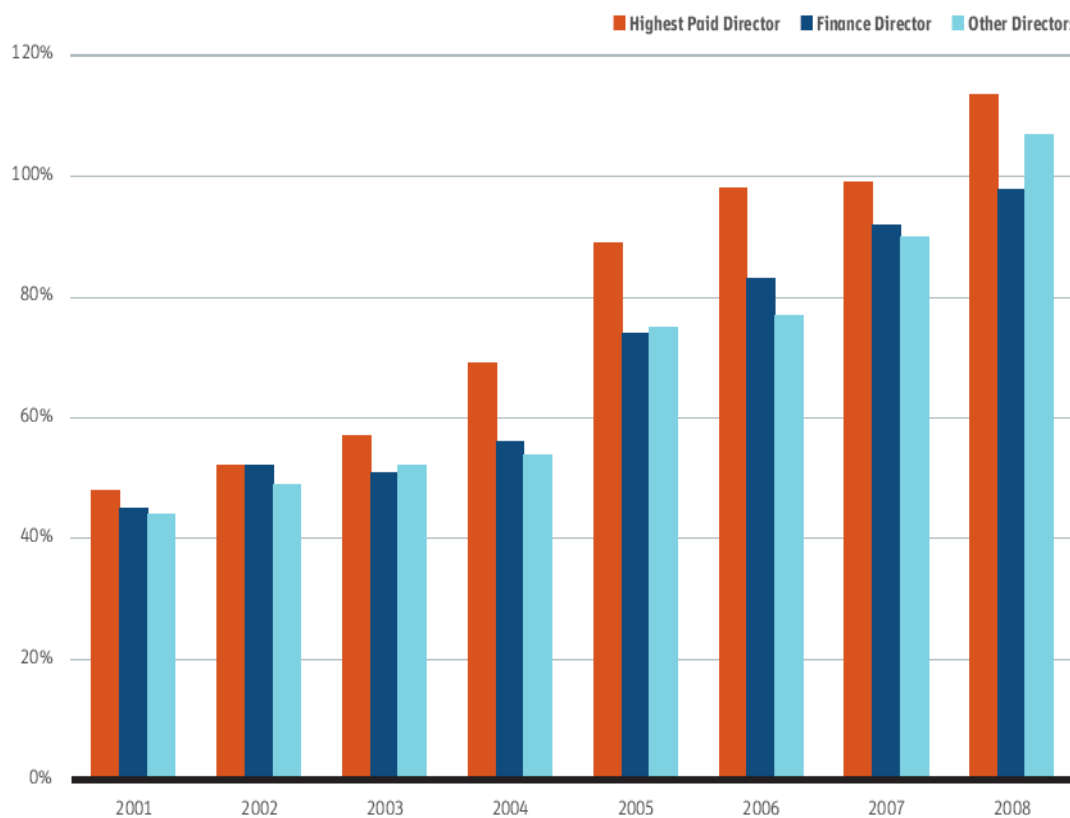
Virtually all of the companies in the FTSE 100 operate annual bonus plans for their executives, making it the most common incentive. This has been the case for the best part of the past 10-15 years. Between 2001 and 2008, the median annual bonus potential among FTSE 100 companies had more than doubled (Figure 4). The median reached 150% of salary in 2008, compared to 60% in 2001. Actual bonuses paid, as a percentage of salary, also increased (Figure 5).

Figure 4 Median bonus opportunity for FTSE 100 executives 2001-2008



Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

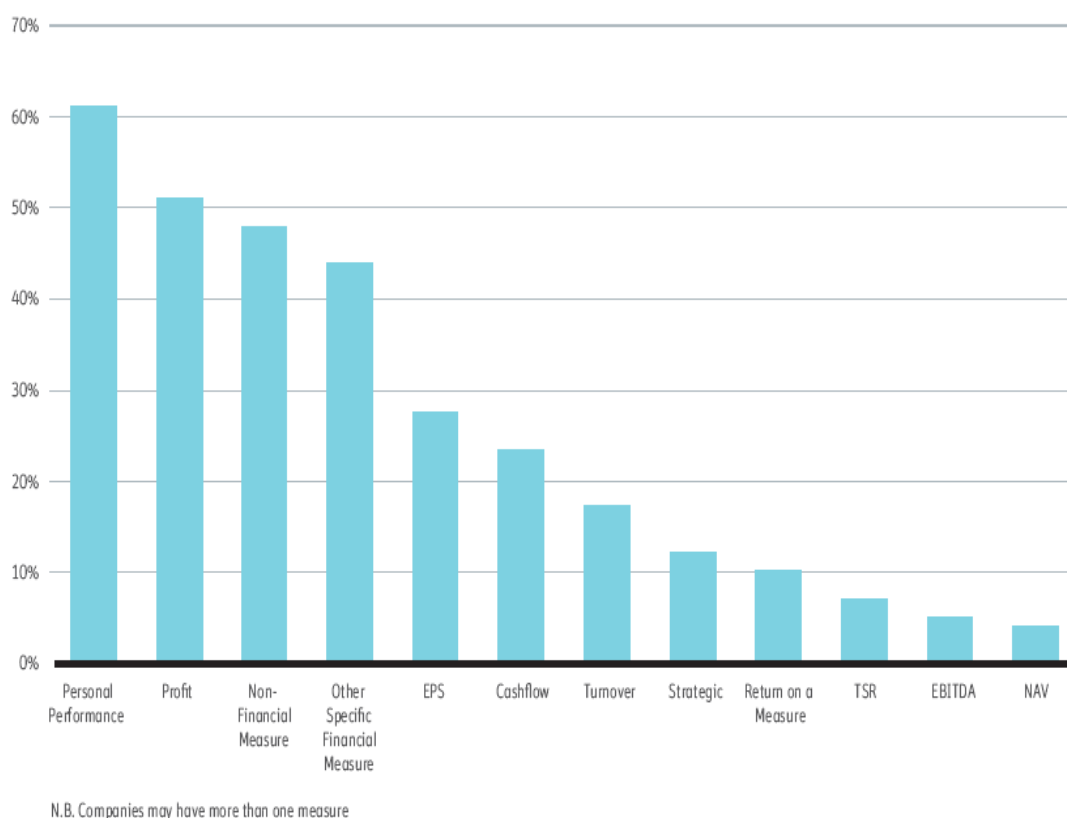
Figure 5 Median actual bonus paid for FTSE 100 executives 2001-2008



Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

The typical bonus payment in 2008 was 80% of the maximum payable. Profit and personal performance remained the commonest annual performance metrics (Figure 6). It is also important to point out that around 60% of companies required part of their bonus to be deferred in shares in 2008. This practice was not common in the 1990s when annual bonuses were typically delivered in cash at the end of the fiscal year or performance period. Further details regarding deferred bonus arrangements will be outlined in the next part under Long term Incentives.

Figure 6 Performance measures in annual bonus plans among FTSE 100 in 2008



Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

1.4.1.6 Long term incentives

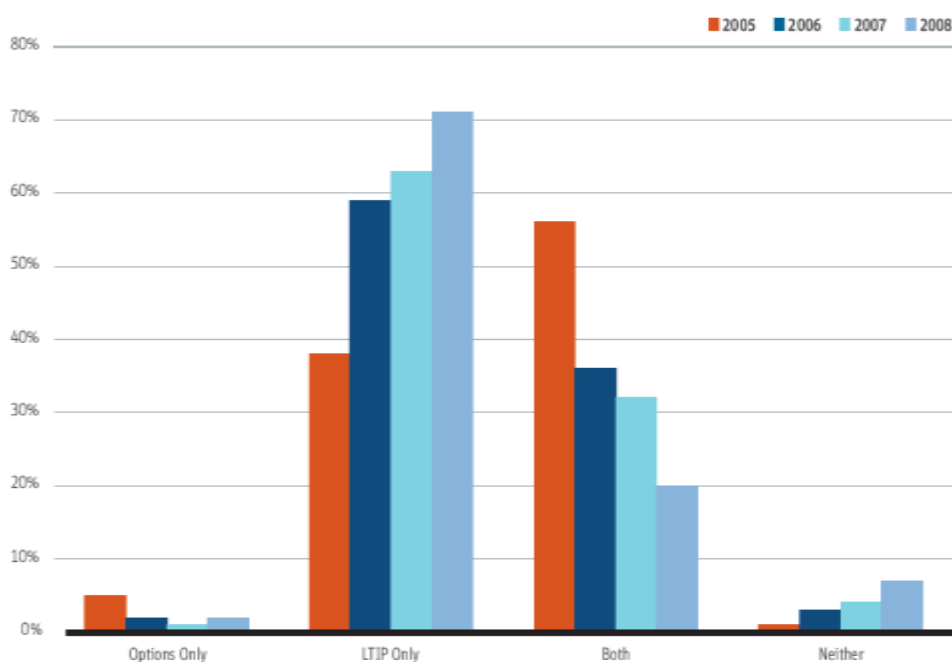
The long term element of executive remuneration generally comes in two forms of incentives: share options and free shares. Typically, market value options are granted that vest three years later subject to continued employment and performance conditions; while free shares are conditional awards of whole free shares are granted which also vest three years later, again subject to continued employment and performance conditions.

Specifically, there are two main arrangements where free shares are awarded to executives:

- Share matching plans (SMP), also known as deferred bonus plans, under which conditional awards of shares are made that 'match' the number of shares invested (using bonus or shares already held) and retained by the executive in the plan
- Performance share plans (PSP; aka LTIPs), under which conditional awards of shares are made without executives being required to invest in shares themselves.

Figure 7 shows the split between companies using options and performance shares. It shows that now 71% of companies used LTIPs only in 2008 (compared to only 38% in 2005). Only 22% of companies had a policy of granting options (compared to around 60% in 2005). Options are now viewed as a potentially volatile incentive that can be perceived to be worthless if underwater and which are typically less efficient than PSP/LTIPs from a dilution and accounting cost perspective.

Figure 7 Types of long term incentives available to FTSE 100 executives 2005-2008

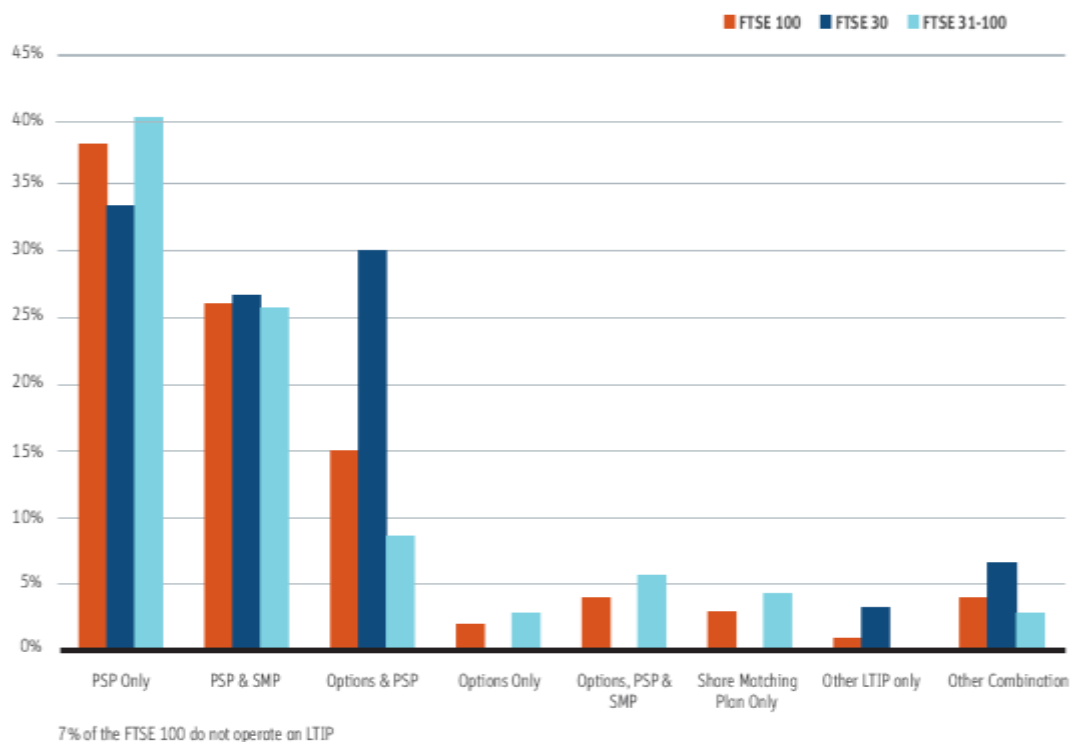


Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

Figure 8 shows in more detail the combination of plans operated. The commonest arrangement was the sole operation of a performance share plan in 2008 (38% of FTSE 100 companies). While, generally, options were already in decline then, Figure 8 indicates that 30% of FTSE 30 companies still used options (although every one of these companies also operated a PSP/LTIP).

This could reflect the fact they are global companies which may have operations in jurisdictions (such as the United States) where options were still the norm.

Figure 8 Types of long term incentives available to FTSE 100 executives in 2008



Source: Hewitt New Bridge Street Report on FTSE 100 Directors' Remuneration 2008

Further details about the mechanics of share options performance shares and deferred bonus plans among FTSE 100 firms can be found in Appendix B. It is, however, relevant for the purpose of the ensuing discussion to highlight here the typical performance measures that were commonly attached to these plans.

As shown in Figure 9, in 2008, the vesting of FTSE 100 options (i.e. the right to exercise) typically depended on meeting an earnings per share (EPS) performance criterion. In the same year, the condition most commonly used in performance share plans was total shareholder return (TSR), with 77% of FTSE 100 plans with such provision (Figure 10). As for deferred bonus plans, EPS was the most prevalent performance condition for the matching share award, closely followed by TSR (Figure 11).

Figure 9 Performance measures in FTSE 100 share option plans

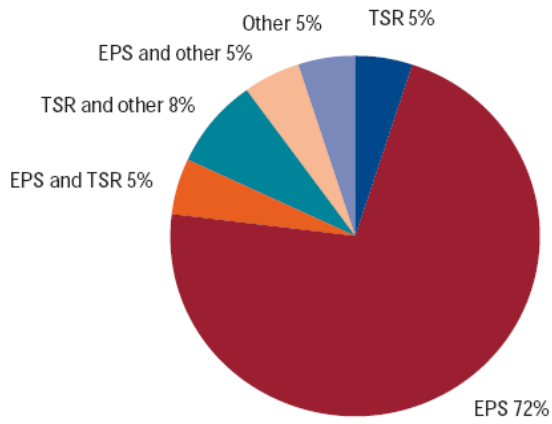


Figure 10 Performance measures in FTSE 100 performance share plans

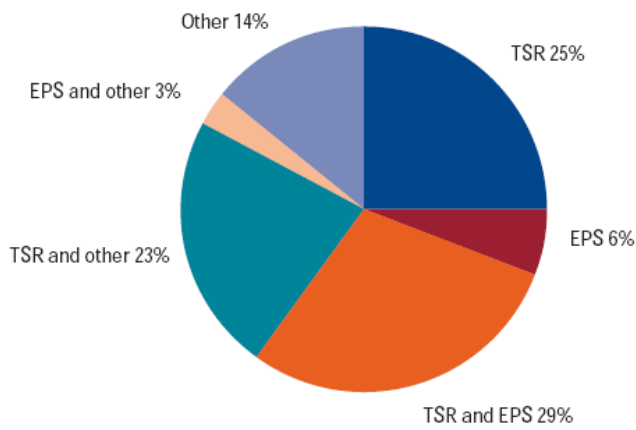
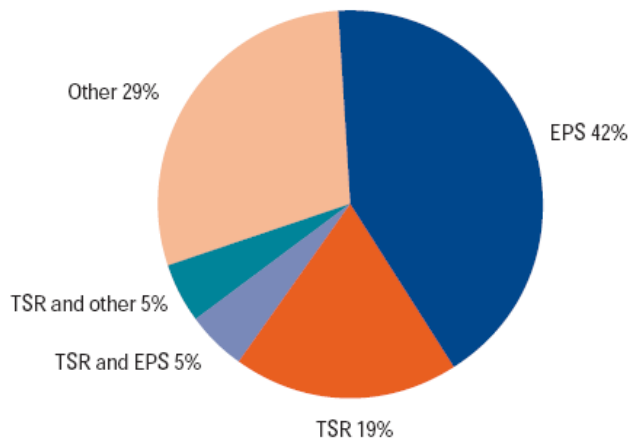


Figure 11 Performance measures in FTSE 100 share matching plans



Source: KPMG Survey of Directors' Compensation 2008

The main reason for emphasising these performance conditions attached to the respective long term incentive plans is to point out that the plan design for share options and deferred matching shares favoured by many shareholders and institutional investors had an EPS performance target; whereas TSR relative to a comparator group was the measure of choice for performance share plans (PricewaterhouseCoopers 2005). It is therefore not difficult to see why a large proportion of FTSE 100 companies had EPS and relative TSR attached to their executive long term incentive plans.

1.4.2 Research objectives

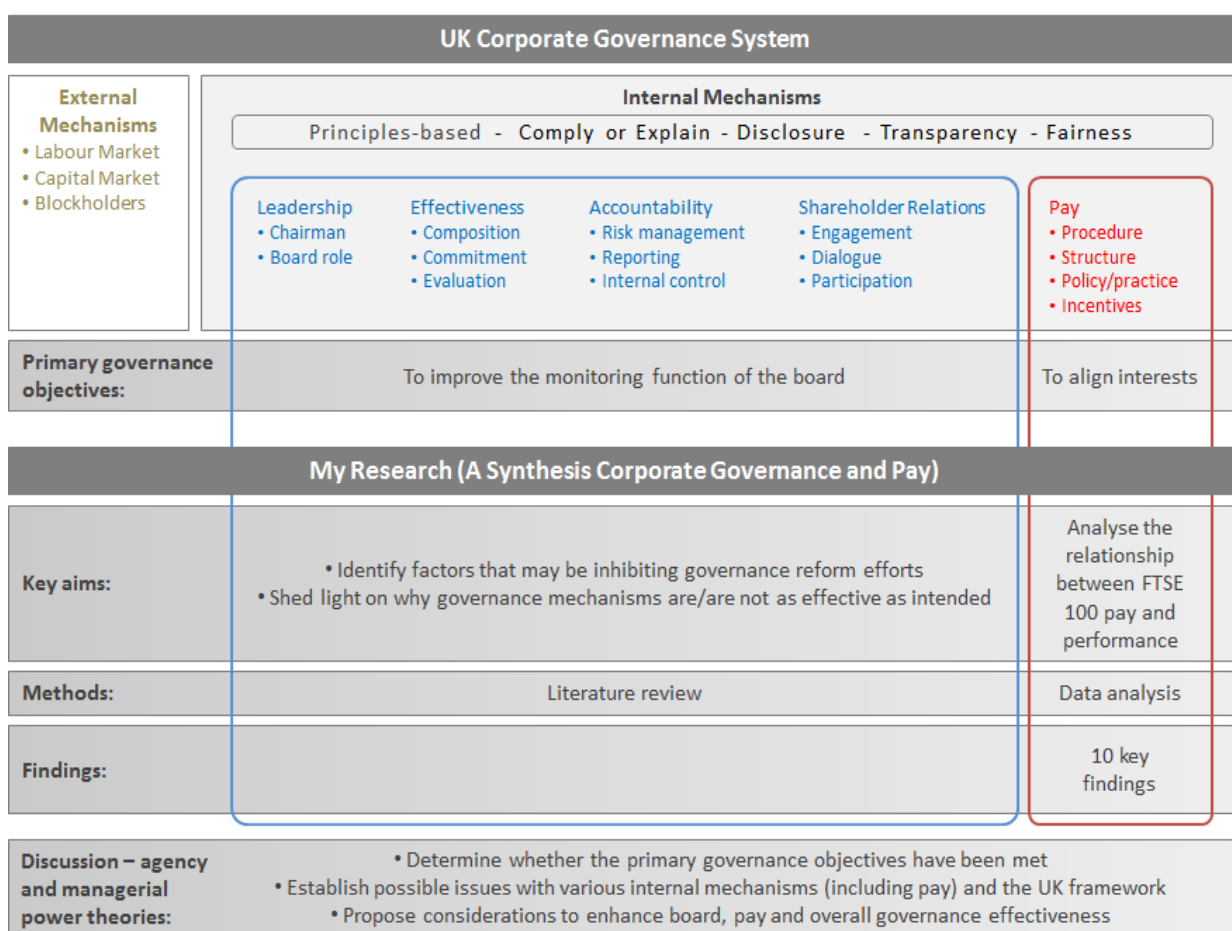
Corporate governance and executive pay have been much studied in the past as separate topics but rarely, if ever, has a thorough attempt been made to examine both at once, with the aims of bringing the two topics together for more detailed analysis and seeking to synthesise the findings into a common understanding. Hence, one of the goals of this study is to contribute to the existing body of research by investigating, qualitatively and quantitatively, senior executives' remuneration not only in relation to company performance but specifically in the context of corporate governance.

As will be seen in the literature review presented in Chapter 2, corporate governance has diverse aims, many of which are related to executive compensation. For example, reforms have sought to raise the independence of executive pay determination, the transparency of the process through improved disclosure and the voice of shareholders in the outcome. In addition to being recognised as one of the key governance drivers and hence forming a key part the UK Corporate Governance Code 2010 (and each of the previous versions of the Code), executive pay has been an area of particular concern for policy makers and received much attention right from the initial stages of reforms. Major governance initiatives that targeted directly and primarily on pay issues have included the Greenbury Report (1995), the Directors' Remuneration Report Regulations (2002)/Statutory Instrument 401 (2008).

Furthermore, governance guidelines have also been issued by bodies that represent institutional investors (such as the Association of British Insurers 1994, 1996, 1999, 2002, 2004 and 2007; the National Association of Pension Funds and the Pensions and Investment Research Consultants 2010), all of which have made specific recommendations concerning pay. It is clear that, although executive pay is a highly important, intricate and controversial issue, little is known about its true effect as a governance mechanism within the UK. This paradox alone is sufficient to make it the focus of academic attention.

In order to better situate and integrate the large body of research conducted in the areas of corporate governance and executive pay/company performance literature, an original exploratory research framework has been developed as illustrated in Figure 12. It is intended that through such an exercise of comprehensive and rigorous exploratory analysis of the literature and data, this study will provide some direction for future research. Moreover, Figure 12 will also act as a signpost that draws attention to the structure and the main features of the research and offers insight contained in later chapters of the thesis.

Figure 12 Research framework



Source: this author

As shown in Figure 12, there are two main steps in this study. First, it is to conduct a thorough review of the literature regarding UK corporate governance reforms and executive pay, with particular focus on the research approach and theoretical application of prior empirical studies. The aims of this qualitative review are to gain an up-to-date understanding of the role and impact of the remuneration of senior executives in a governance context, and to uncover potential reasons that may have contributed to the mixed results of the extant literature.

This process is intended to provide insight and perspective for interpreting and explaining the results of the second part of my research: a quantitative analysis of the remuneration of UK FTSE 100 board executives over the period 2004 to 2009. The analysis is in three separate but interrelated parts (see Chapter 3 for details):

Part 1: Relationship between company size and executive pay

Part 2: Relationship between executive pay and company performance

Part 3: Factors affecting the pay-performance relationship

The main thrust of this analysis is to obtain some indication as to whether increased corporate governance activity has influenced the role and practices of remuneration for the executive directors of the UK's largest public companies.

In addition this study has a number of novel features that set it apart from previous research work in this area, which are set out below.

Theoretical approach

The use of executive pay, the implementation of incentive plans in particular, to promote shareholder value is traditionally underpinned by agency theory, hence it seems logical for the present study to also employ an agency perspective to allow for comparisons to be drawn against previous research.

However, the research findings will also be examined in the light of alternative theories, such as managerial power theory, to supplement what is lacking in the agency perspective. This approach may prove useful for identifying the research gaps in the literature and furthering the current understanding of the subject of executive pay in the governance context.

Study period 2004/05 to 2008/09

In recent years, companies - especially those in the FTSE 100 Index - have had to respond to the challenge of transforming their executive remuneration approach to meet changing governance demands and rising expectations, with particular reference to the new disclosure requirement and pay setting procedure. It has thus become both interesting and necessary to conduct research for this period of exceptional activity to observe trends.

At the same time, changes in disclosure requirements mean that one can now gain access to publicly available remuneration data, which are presented in a more consistent manner across all companies. As a result, it is possible for the current study to carry out analyses based on a data sample that spans across a number of years 2005 to 2009. Much of the previous pay research has employed a cross-sectional approach, using one year's worth of data only.

Data sample

The present study examines the companies comprising the FTSE 100 index. There are a number of important reasons for choosing this relatively small sample in executive pay research terms. First, FTSE 100 pay practices are very different from smaller FTSE250 companies. Second, FTSE 100 companies are all traded on the London Stock Exchange and are governed by the same set of listing rules. Together the group represents some 81% of the UK's market capitalisation. Thirdly, using a smaller sample means that more in-depth analyses can be conducted.

Roles

Executive positions that are captured in this study include CEOs, finance directors and all other main board directors. CEO pay is often different from other directors, therefore it is informative to examine the different roles side by side in order to draw comparisons.

Pay variables

The structure of directors' remuneration is complex and has many components. Many past studies have used only a single pay variable - either 'total cash compensation' (the sum of base salary and annual bonus) or 'total compensation' (total cash plus long term incentives) to represent the pay variable, both of which are calculated by aggregating two or more components of pay into a single measure. Only a small number of researchers have considered the individual pay components, such as base salary, annual bonus and share incentives, separately in their analyses. In order to advance on the understanding of the relationship between the various components of pay and performance, as well as how executives perceive and respond to different incentive rewards, the current study breaks down the pay variable into its various components for separate analysis. This also enables one to test whether and how different factors explain different amounts of variation, relative to performance.

Company performance measurement

Prior studies have primarily chosen to use only one or two financial measures. One can argue that the outcome of one measure is not sufficient grounds on which to reach a definitive answer concerning the association between awarding compensation and improving company

performance. In the current study, therefore, six measures of performance were used (see Chapter 3 for details).

Overall, this study takes advantage of the changes that took place over recent years and elaborates on previous research with a fresh approach and examine executive pay in a more comprehensive manner.

In sum, the main purpose of this study is two-fold. The first is to attempt to acquire a better understanding of the relationship between the remuneration of different board positions and company performance in the context of corporate governance. As established earlier, the past two decades have seen an on-going stream of pay related governance changes in the UK, during which time market and institutional pressures targeting executive pay have also been mounting. It must have been quite challenging for companies having to keep up-to-date with the ever-changing requirements and expectations.

Nevertheless, the overall the level of compliance among FTSE 100 companies to all these changes has been high which points to the suggestion that the pay-performance relationship should have improved during the five year period under study. The results from the quantitative investigations as presented in Chapter 4 should cast some light on this conjecture, as well as offer some potential answers and discussion points for the following questions: have recent governance reforms had a positive measurable effect? Is the engagement with 'best practice' principles proving a positive process concerning the effectiveness of the board and the role of executive pay? Have the new pay determination process and disclosure requirements influenced prevailing compensation practice?

The second aim of this study is to move beyond examining the determinants of pay to exploring the effects and consequences of directors' remuneration as a key corporate governance mechanism. In particular, it attempts to identify the factors that might be preventing governance reform efforts from being as successful as they could be, and where the government and regulators should direct their attention to improve matters. It is intended that the synthesis provided by this research into the twin topics of executive pay and corporate governance will shed light on some of the aspects of pay management that may contribute towards reassessing future regulatory changes.

Further, the present study also seeks to overcome some of the data-related problems and limitations that have hampered previous research. By including the key research features

presented above, this study should provide further insight into why the existing literature lacks convergence, which may in turn enable future researchers to avoid the pitfalls that their predecessors have encountered. Additionally, as all the analyses are based on UK pay data and practices, the findings will contribute to the corpus of UK executive pay literature which is at present still rather sparse.

1.5 Thesis structure

The rest of the thesis is organised into seven chapters. Chapter 2 reviews the literature of the two main areas of focus of this study which are closely interconnected: corporate governance and executive pay. Also included in the chapter are overviews of agency theory and managerial power theory since, taken together, these two theories provide the underlying concepts and disciplines needed for examining executive pay as a corporate governance mechanism. Chapter 3 describes the data on which this study is based and also sets out the hypotheses tested and the methodology employed. Chapter 4 presents in detail the results based on the quantitative analyses, while Chapter 5 provides an overview of the background to the main discussion. Chapters 6 and 7 examine the findings in the light of the literature considered in Chapter 2 and address the questions and observations brought up by this study. Finally, in Chapter 8, the thesis closes with a discussion of the limitations and implications of the present study, as well as some concluding remarks to integrate any lessons learned into pointers for future governance reforms.

2 Literature review

This chapter begins by providing a historical survey of events of UK corporate governance over the past two decades.

2.1 Defining corporate governance

The description of corporate governance in Footnote 1 is a general working definition that serves to guide the present discussion. However, broadly speaking, there is no set definition for the concept of corporate governance (OECD 2004 p13). In fact, the term itself was scarcely used until the 1980s (Tricker 2009). As pointed out by Dowdney (2010 p1), 'there is, as yet, no generally applicable global corporate governance model...organisations tend to work within the parameters set out by national laws and regulations and the economic goals and expectations of shareholders'. Notwithstanding, due to the emergence of the standards put forward by international investors and capital markets, the past decades have seen a certain degree of convergence in corporate governance across the world. In addition, the World Bank, the European Central Bank and the Organisation for Economic Co-operation and Development (OECD) have all taken considerable initiatives to establish a theoretical and analytical framework for corporate governance in recent years. In 1999, the OECD provided a broad yet widely accepted definition of corporate governance, indicating that the emphasis on relationships is central to the broader concept of governance:

'The OECD takes a broad view of corporate governance and defines it as the full set of relationships among a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance determined.' (1999a: 10).

More recently, corporate governance has become more comprehensively defined (OECD 2004):

'Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation - such as the board, managers, shareholders and other stakeholders - and lays down the rules and procedures for decision-making.' (European Central Bank 2004).

2.1.1 UK corporate governance approach and regulatory framework

According to the Financial Reporting Council (2010), the UK corporate governance approach 'starts from the position that good governance is a tool that can improve the board's ability to manage the company effectively as well as provide accountability to shareholders:

'The effectiveness with which boards discharge their responsibilities determines Britain's competitive position. They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good corporate governance.' (Cadbury 1992 paragraph 1.1 p11)

In addition, as further explained by the Financial Reporting Council (2010), the UK approach aims to benefit shareholders by improving the company's long term value. This needs flexibility in the way companies adopt governance practices. To be effective, good governance has to be implemented in a way that fits the culture and organisation of individual companies - a factor that can vary enormously depending on size, ownership structure and the complexity of the business model.

UK governance is based on the principle of 'comply or explain' through the Combined Code. The Code identifies good governance practices on, for instance, role and composition of the board and the development of sound internal controls, but firms can elect to adopt a different approach that is more appropriate to their own circumstances if they choose. Where a company does so, though, it is required to explain the reason to their shareholders who, in turn, must decide whether they are satisfied with the approach that has been taken.

The 'comply or explain' approach enables decisions about, say, the independence of non-executive directors, to be made in individual cases. The approach has the support of companies, investors and regulators in the UK and has also been adopted as a model in other financial markets. For the system to work, the shareholders must have relevant information to enable them to make a judgement on the governance practices of the firms in which they invest. They must also have the right to influence the behaviour of the board when they are not satisfied. This means that 'Comply or explain' must be backed by an appropriate regulatory framework.

In UK company law, shareholders enjoy a number of rights, including the right to appoint and dismiss individual directors and, in some circumstances, to call an Extraordinary General Meeting of the company. Company law also sets out requirements relating to the Annual

General Meeting (AGM), including the provision of information to shareholders and arrangements for voting on resolutions, together with requirements for information to be disclosed in the annual report and accounts. These must include a Business Review, in which the board describes the main risks and uncertainties facing the company, and a report on directors' remuneration.

This corporate governance framework is fortified by the Listing Rules that must be followed by companies listed on the London Stock Exchange. The Listing Rules provide additional rights to shareholders - for example, requiring that major transactions are put to a vote and certain information to be publicly disclosed to the market. This includes the need to put forward a 'comply or explain' statement in the annual report and accounts explaining how the company has applied and/or adopted the recommendations in the Combined Code. In summary, the regulation of corporate governance in the UK is provided by a number of different rules, regulations and recommendations. Some of the major requirements are listed in Table 3.

Table 3 Overview of the major corporate governance requirements in the UK

<ul style="list-style-type: none"> • Common law rules (e.g. directors' fiduciary duties) • Statute (notably the Companies Act 1985) • A company's constitutional documents (the memorandum and articles of association). • The Listing Rules, which apply to all companies that are listed on the Official List (or AIM Rules, as appropriate) • The Corporate Governance Code • Non-legal guidelines issued by bodies that represent institutional investors (such as the Association of British Insurers, the National Association of Pension Funds and the Pensions and Investment Research Consultants. These guidelines apply to listed companies and although they are informal, some institutional investors may oppose any corporate actions that contravene them • In the context of takeovers of public companies, the City Code on Takeovers and Mergers and the rules of the Takeover Panel apply (2011) • The Financial Services Authority's Code of Market Conduct (relating to the disclosure and use of confidential and price sensitive information and the creation of a false market).

Source: Dowdney (2010)

2.1.2 UK principles-based approach vs US rules-based approach

It is worthy of note that while the UK's approach to corporate governance is principles-based, the one adopted in the US is strictly rules-based (Table 4). In the US, corporate governance is

determined predominantly by legislation in the form of the Sarbanes-Oxley Act of 2002 (SOX) and detailed regulations which SOX required the Securities and Exchange Commission, New York Stock Exchange and NASDAQ to draw up.

The UK ‘comply or explain’ approach to corporate governance varies significantly from the general approach taken by SOX. Although SOX-related regulations use the ‘comply or explain’ method in some instances (for example, in relation to whether a company has a ‘code of ethics’ or its audit committee has a ‘financial expert’), in most other instances, US regulation tends to rely on the legislation and fines and imprisonment penalties for violating the requirements of SOX.

Table 4 The UK and US approach to corporate governance

UK - Principles-based	US - Rules-based
<ul style="list-style-type: none"> • General principles that give ‘best practice’ guidelines • Not enforced by law • ‘Comply or explain’ departures mean companies do not have to follow guidelines 	<ul style="list-style-type: none"> • Strict, detailed compliance rules • Legally enforceable • All companies must comply
Arguments for principles-based approach	Arguments for rules-based approach
<ul style="list-style-type: none"> • Companies are already highly regulated, more rules will stifle development • Low compliance cost for companies • Practical yet flexible: companies can apply the rules to suit their circumstances 	<ul style="list-style-type: none"> • Robust procedures are effective • Reduces risk of disasters as companies will not be satisfied by mere token compliance • Cost of compliance may be high but still less than the cost of a major fraud

Source : Dowdney (2010)

2.1.3 Development of corporate governance in the UK

Cadbury Report (1992)

The Report of the Committee on the Financial Aspects of Corporate Governance, more commonly known as the Cadbury Report was published in December 1992. It followed the recommendations of the Cadbury Committee, set up in May 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy profession in the wake of a series of financial scandals involving UK companies during the 1980s, which raised questions about the quality of companies’ financial reporting.

The Committee's brief was to examine the financial aspects of corporate governance and it produced a Code of Best Practice, to which they recommended all boards of UK listed companies should comply. Chief among the Committee's recommendations were that listed companies should formally declare in their Report and Accounts whether or not they complied with the Code's provisions. Where they had not complied, they should provide a reason. The Report also recommended that auditors should review the compliance statements made by the companies before publication of its annual report.

The Code of Best Practice was concerned chiefly with the composition of the board of directors and the appointment and independence of non-executive directors. It also considered the service contracts and remuneration of executive directors, and companies' financial reporting and controls.

The Committee recommended that (Manifest 2004):

- The majority of non-executive directors should be independent of management and not have any business or other relationship
- Non-executive directors should be appointed for specified terms
- Service contracts should not exceed three years
- Executive remuneration should be subject to the recommendations of a remuneration committee made up entirely or mainly of non-executive directors
- An audit committee, comprising at least three non-executives should be set up.

Following publication of the Code, the London Stock Exchange changed its Listing Rules asking companies to include a statement of compliance, or non-compliance, in their annual report and accounts. Institutional investors and investment banks also encouraged the companies in which they had an interest to adopt the Code's provisions. As a result, many companies changed their governance procedures and conduct to conform to the Committee's recommendations.

Greenbury Report (1995)

Executive remuneration became a focus of concern for investors during the 1990s, because pay levels in privatised industries were rising while at the same time remuneration packages were not providing the necessary incentives to improve directors' performance. To address the issues of corporate governance in relation to director's remuneration more rigorously, the Greenbury

Committee was set up. Their findings and recommendations were published in the Greenbury Report, which included a Code of Best Practice on Director's Remuneration.

There were four main recommendations concerning remuneration:

- That a Remuneration Committee should set the remuneration packages for the CEO and other directors
- That disclosure of details of directors remuneration was needed to inform shareholders and, if necessary, obtain shareholder approval
- Guidelines for determining the remuneration policy for directors
- Service contracts binding the company to pay compensation to a director, including the event of his or her dismissal for poor performance.

Like Cadbury, the Greenbury report recommended the establishment of a Remuneration Committee comprised entirely of non-executive directors to set the remuneration of the executive directors. Unlike Cadbury, Greenbury recommended a maximum notice period of 12 months instead of the three years suggested by Cadbury.

The recommendations of the Greenbury Committee were adopted by the London Stock Exchange and incorporated into its Listing Rules. However, unlike the Cadbury Code, Greenbury was not so widely welcomed because its recommendations were seen as not grasping the nettle of linking executives' pay to company performance, in the interests of shareholders.

Hampel Report (1998)

In 1996, the Hampel Committee was set up to review and, where necessary, revise the recommendations of the Cadbury and Greenbury Committees. The Hampel report placed stress on good governance rather than specific rules to avoid placing too much of a regulatory burden on companies. The Committee also took more notice of the individual differences between companies and their different needs in terms of good corporate governance. This emphasis on principles, rather than specific rules and regulations, was an early turning point in the development of governance.

In Hampel's view, the primary objective of a public company is to improve shareholder value and hence changes to corporate governance regulation should be viewed from a principal/agent perspective with this end in view. This was a departure from previous

committees who had focussed on preventing the abuse of executive power, rather than maximising shareholder value. Hempel favoured greater shareholder involvement in company affairs.

A second advance in Hampel was in the area of audit and accountability. It was the board's responsibility to maintain sound internal controls to safeguard shareholders' investments. And the board was to be held accountable for risk management in general, not just the financial controls as recommended by Cadbury.

Hampel did not however, contribute anything new in the area of director's remuneration and simply repeated the remuneration principles in Greenbury. Hampel did not think that directors' remuneration should be a matter for shareholder approval at the Annual General Meeting, although such approval did become a requirement when the Department of Trade and Industry's report on Directors' Remuneration Report Regulations was published in 2002 (under Companies Act 1985).

Combined Code (1998)

The Combined Code, published in 1998 and revised in 2003, accepted the principles and recommendations of the Cadbury, Greenbury and Hampel reports. Following further consideration by the Financial Reporting Counsel, a second revised version of the Code was published in 2006. The Code has two main sections.

The first section sets out the principles of best practice for companies, while the second does the same for shareholders. Compliance with the Combined Code is not mandatory, however, the London Stock Exchange appended the Code to its listing rules. In addition, Listing Rule 12:43A requires a statement by companies to provide shareholders with enough information to be able to assess the extent of compliance with section one of the Code. When the Code has not been complied with, an explanation should be provided to shareholders.

Section 1 of the Code covers topics that include the composition and operations of the board, directors' remuneration, relationships with shareholders, the supply of information and accountability and audit. Section 2 of the Code is less extensive, dealing mainly with shareholder voting, dialogue with companies and evaluating governance disclosures.

One area of the Code considered to be weak is that it urges Institutional investors to 'give due weight to all relevant factors' when assessing the quality of governance disclosure by companies but does not discuss these factors in any detail. Some institutional investor membership associations have written guidance to their members enlarging on this area.

Turnbull Report (1999)

The Turnbull report (Control: Guidance for Directors on the Combined Code) on internal control procedures was published in September 1999. In particular, directors should be responsible for:

- Evaluating sources and types of risk that the company faces
- Providing effective safeguards and internal controls to manage prevent or reduce the risks
- Ensuring the transparency of internal controls and providing an annual risk assessment.

In 2004, the Financial Reporting Council established the Turnbull Review Group to consider the impact of the guidance and the related disclosures and to determine whether the guidance needed to be updated. In reviewing the impact of the guidance, the Financial Reporting Council's consultations revealed that it had very successfully gone a long way to meeting its original objectives. Boards and investors alike indicated that the guidance had contributed to a marked improvement in the overall standard of risk management and internal control since it was introduced eight years ago.

Myners: Review of Institutional Investment (2001)

The report by Paul Myners 'Institutional Investment in the UK: A Review' was published in 2001, having been commissioned by the Government, 'to consider whether there were factors distorting the investment decision-making of institutions'. The Report identified a number of problems with the current system of governance, including that (Manifest 2004):

- Pension fund trustees were being expected to make investment decisions without the necessary knowledge or resources required
- Investment consultants, who advise the trustees, were also being heavily burdened with questions without the necessary resources
- The task of allocating assets and selecting markets (as distinct from individual shares) to invest in was not properly resourced

- There was a lack of clarity about objectives such as those of Fund managers which sometimes appear to be unrelated to the fundamental purpose of a pension fund.

The Myners Review concluded that the present processes of institutional investors (e.g. pension funds and insurance companies) used to make investment decisions were both inefficient and inflexible, meaning that investment decisions are always made in investors' best interests. To deal with these shortcomings, Myners recommended some principles of a more effective approach to investment decision-making, aimed at making pension funds and other institutional investors more efficient. For example, Myners suggested that Trustees should consider if they have the capabilities and skillset, individually and collectively, and the right structures and processes to effectively perform their responsibilities. Besides, it is necessary for them to develop 'forward-looking business plan'. Myners also pointed out that it may not be the ideal way forward to make compliance with these recommendations compulsory; instead it suggest adopting a similar approach to that of the Combined Code and preceding reports. In other words, institutional investors would decide whether or not to adopt the provisions of the Report and explain their decisions where necessary.

The Directors' Remuneration Report Regulations (2002)

Up until the early 2000s, executive compensation had been an area where a purely voluntary approach was tried. Statutory intervention first took place in the form of Directors' Remuneration Report Regulations (the DRRR) in 2002. According to the Department of Trade and Industry (DTI), the primary purpose of the DRRR is to:

- Ensure a consistent format for disclosure to allow investors and the public to gain knowledge of detailed remuneration issues within companies
- Enhance transparency in setting directors' pay
- Provide shareholders with a guidance vote on the remuneration of directors at annual general meetings
- Improve the pay-performance linkage.

To elaborate, companies were previously required by the Listing Rules (LR 9.8.8) to include certain information concerning directors' remuneration by way of notes to their financial statements. Since the DRRR came into force in 2002 pay disclosure requirements have become much more stringent as well as extensive. In particular, the regulations stipulated that all quoted companies must produce for each financial year a 'Directors' Remuneration Report',

within which the remuneration committee is to set out specified and detailed information regarding the emoluments and other benefits (e.g. salary, fees, bonuses, allowances and expenses) of individual board members.

The Report must also contain any compensation for loss of office or other termination payment; information on each director's share options and interests under long term incentive schemes as well as pension entitlements. After all these items have been verified by the company's external auditors (Listing Rules LR 9.8.11), the Report must then be sent to shareholders and all other persons who are entitled to receive notice of general meetings; failure to comply with the new requirements is a criminal offence.

Although there are additional requirements concerning directors' remuneration and equity rewards in Schedule 6 to Companies Act 1985 and in IFRS2 (2005) whereby companies reporting under international accounting standards are obliged to measure all share-based payments at 'fair value' and record them as expenses), the required content of the DRRR is given in Schedule 7A to the Act. The DRRR has been updated in 2008 -Statutory Instrument 401 came into force financial year 2008/2009 or later.

Higgs Report (2003)

In 2003, a report was published following Derek Higgs' review of the role of non-executive directors. His report recommended a number of changes to the Combined Code and a revision of the Code in the same year incorporated most of his recommendations. The Report focused on the role, independence and recruitment of non-executive directors and is often regarded as Britain's response to the Enron financial scandal in the US. Higgs stated the non-executive director's role as:

- Making contributions to corporate strategy
- Monitoring the performance of executive management
- Satisfying themselves regarding the effectiveness of internal controls
- Setting the remuneration of executive directors
- Playing a part in the nomination, removal and succession planning of senior management.

The Combined Code recommended that boards should have at least one-third non-executive directors, and that the majority of them should be independent. However, the Code did not say how their independence should be assessed. Higgs remedied this omission with a number of tests independence, including length of service (ten years), associations to executive management, individual financial interest or significant shareholding. Further, cross-directorships were identified as compromising independence, such as the case where two directors act as executive directors and non-executive directors alternatively at two companies (Manifest 2004). Higgs warned, though, that 'in practice there may be a complicated network of inter-relationships known as 'an old boys' club' so that it remains difficult to determine objectively a directors' independence.' (Manifest 2004 p4).

In terms of recruitment, Higgs recommended stronger guidelines for nomination committees. Higgs recommended that listed companies should set up a nomination committee, chaired by an independent non-executive director - other than the company chairman- and with a majority of independent non-executive directors. Higgs also recognised that the recommendations regarding non-executive directors would be more difficult for smaller companies to put in place (Higgs 2003 p40). Further, the Higgs report also suggested that:

- The board should review its performance, as well as the performance of its committees and individual directors at least once a year
- The Company Secretary should be accountable to the board through the chairman on all governance matters
- The terms of reference of the remuneration committee should be published.

Smith Report (2003)

In 2002, the Financial Reporting Council set up an independent group, chaired by Sir Robert Smith, to clarify the role and responsibilities of audit committees and to develop the existing Combined Code guidance. This group worked closely with the Higgs review and in its report (the Smith report) issued in January 2003, it proposed changes to provisions in the Combined Code dealing with the composition and role of the audit committee and its reporting to shareholders. Smith indicates that where a company does not follow the guidance it should explain and justify this in its annual report.

The key recommendations of the Smith Report include:

- Purpose of the audit committee
 - Monitor integrity of accounts and review effectiveness of internal audit
 - Review internal financial control and risk management systems
 - Recommend to the board the appointment of the external auditor and monitor external auditors' independence, objectivity and effectiveness
 - Develop policy regarding use of external auditor to supply non audit services.

- Membership
 - At least three members; all of whom should be independent non-executive directors and the chairman should not be a member.
 - Maximum period of membership is nine years
 - At least one member should have significant and relevant financial experience.

- Communication
 - The Directors' Report should contain a section reporting on the audit committee:
 - Role/responsibilities of the committee
 - Relevant qualifications, expertise and experience of each member
 - Resources available to the committee
 - Number of meetings and details of individual directors' attendance
 - Main activities in the year
 - Chairman of the committee should attend the AGM to answer relevant questions.

Revised Combined Code (2003)

In July 2003, the revised Combined Code was published and followed closely the recommendations of the Higgs and the Smith reports. As in the previous Combined Code, 'companies are required to report on their compliance against the Code and should explain areas of non-compliance' (Manifest 2004 p4). The new Code was a significant revision of the 1998 Code. Specifically it recommends:

- That the roles of chairman and chief executive should be separated. The chairman should satisfy the criteria for independence on appointment but once appointed, should not thereafter be considered independent when assessing the balance of board membership

- That the board should consist of at least half independent non-executives. The Code defines independence as recommended by the Higgs Report
- That the board, its committees and directors to be subject to an annual performance review
- That at least one member of the audit committee should have recent and relevant financial experience
- Unlike the Higgs Report, the revised Combined Code allows the chairman to chair the nominations committee, except where the committee is considering the appointment of the chairman's successor.

Myners Report (2004)

Paul Myners 'Review of the Impediments to Voting UK shares,' published in January 2004 for the Shareholder Voting Working Group, a network of investment industry and corporate bodies, was developed in response to the need 'to address concerns that the system for voting the shares of UK issuers is not as effective and efficient as it should be.' (p1). Specifically, as stated in the Report, problems have come about due to the process being 'quite manually intensive' and that 'the chain of accountability is complex...there is a lack of transparency and...there is a large number of different participants, each of whom may give a different priority to voting.' (p1).

While it is stated that if the existing paper-based system, which has a number of structural weaknesses, were to be, 'overhauled and upgraded' (p1), it would lead to improvements being seen, the overriding conclusion is that, 'electronic voting remains the key to a more efficient voting system, and all parties - issuers, institutional investors and the intermediaries - need to make conscious efforts to introduce electronic voting capabilities in 2004.' (p3). Further to this it is recommended that, 'issuers in at least the FTSE 350, investment managers, custodians and proxy voting agencies should all have introduced the necessary system changes so that electronic voting capabilities are universally available (and) that beneficial owners...make direct and specific enquiries of their agents and others to establish the extent to which they have, or will have, introduced electronic voting capabilities to be used this year.' (p3).

Revised Combined Code (2006)

Two subsequent consultation exercises have resulted in changes to the Code. The first was conducted between July and October 2005 and the second - on draft amendments to the Code -

was held between January and April 2006. Both found that the Code was only partly effective and that minor changes were needed. This finding followed comments from UK listed companies and investors on the how well the Code functioned in practice. Amendments to the Code related to:

- Amending the restriction on a company chairman serving on the remuneration committees so he or she may do so where considered independent on appointment as chairman (at the same time recommending that he or she should not also chair the committee).
- Provide an option of 'vote withheld' on proxy appointment forms so that shareholders may indicate having reservations on a resolution but do not wish to vote against. A 'vote withheld' is not a legal vote and is not counted in the calculation of the votes for and against a resolution.
- Propose that firms publish details of proxies lodged at a general meeting where votes are taken on a show of hands, on their website. The Company Law Reform Bill (2005) contained provisions that require companies to publish details of votes taken on a poll.
- Recommend that companies publish the terms of reference of board committees on their websites.

The 2008 UK Combined Code and the 2010 UK Corporate Governance Code

Since its publication in 2003, the UK Combined Code was reviewed and revised on a number of occasions, with the final refinements completed in June 2008. With the aim of making the status of the Code as the UK's recognised corporate governance standard clearer to investors, the Code was formally renamed as the UK Corporate Governance Code in October 2010. The UK Combined Code is the responsibility of the Financial Reporting Council and represents the aggregate good judgment of the reports described above. It is currently regarded as standard for good corporate governance practices for UK listed public companies.

The Listing Rules of the London Stock Exchange require that listed public companies must comply with the recommendations of the Code or explain why they elect to deviate from certain provisions of the Code - the so-called principle of 'comply or explain'. Although classed as 'soft-law', the Code, together with pressures from institutional investors and market forces, seems to have had a considerable effect on ensuring compliance. As well as the Listing Rules, further requirements have been established through the Directors' Remuneration Report Regulation 2002. And since 2005, following the implementation of the EU Accounts

Modernisation Directive, companies are also required to introduce an annual business review (Du Plessis et al 2011).

On 1 December 2009, the Financial Reporting Council published its final report on its review of the effectiveness of the Combined Code. Briefly stated, the Code has been revised on a regular basis since 2003 so that it reflects changing governance views and practices as well as changing economic circumstances. The reports published in 2009 and 2010 reflect the lessons of the 2008-2009 global financial crisis that affect all public companies.

Some of these changes were outlined by the Financial Reporting Council in its final report in 2009:

- New principles have been proposed on: the roles of the chairman and non-executive directors; the need for an appropriate mix of skills on the board to ensure both experience and independence; the level of commitment expected of directors; and the board's responsibility for defining the company's appetite for risk.
- Additional 'comply or explain' provisions including: evaluation reviews of board to be held externally every three years; the chairman to hold development reviews regularly with all directors; and companies must report on their business model and their overall financial strategy.
- The section of the Code dealing with remuneration has been changed to stress the need for performance-related pay to be aligned with the company's long term interest as well as to the company's risk policies. Variable components of remuneration to be reclaimed in some circumstances.

The most recent report, titled the UK Corporate Governance Code, was published in 2010. The main provisions of the 2010 Code regarding board composition are:

- The chairman should be an independent non-executive director (Code Provision A.3.1).
- The board and its committees should consist of directors with the appropriate balance of skills, experience, independence and knowledge of the company to enable it to discharge its duties and responsibilities effectively (New Principle B.1).
- The board should include a strong presence of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking (Supporting Principle to B. 1). It is of considerable importance to note that there is no longer a

requirement that at least half of the board (excluding the chairman) should be independent non-executive directors (2008 UK Combined Code Provision A.3.2). However, the board should identify in the annual report each non-executive director it considers to be independent (Code Provision B.1.1).

- The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate (Code Provision A.4.1).
- The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors (Code Provision A. 1.2).
- There should be at least three committees of the board, namely an audit committee (Code Provision C.3.1), a nomination committee (Code Provision B.2.1); and a remuneration committee (Code Provision D.2.1).
- No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee (supporting Principle to B.1).

Other reports since 2008

Since the financial crisis of 2008, there have been further moves towards improving corporate governance in the form both of further reports and Parliamentary discussion with a view to introducing legislation.

In 2009, Sir David Walker was asked by the Prime Minister to review corporate governance in UK banks and other financial industry entities. His report was published in November 2009. It made recommendations in the areas of board size, composition and qualification, functioning of the board and evaluation of performance, the role of institutional shareholders: communication and engagement, governance of risk, and remuneration.

Sir David's main recommendations were:

- Board level risk committees to be chaired by a non-executive director
- Risk committees to have power to scrutinise and if necessary block big transactions
- More power for remuneration committees to scrutinise firm-wide pay
- Remuneration committee to oversee pay of other high-paid executives not on the board
- Significant deferred element in bonus schemes for all high-paid executives
- Increased public disclosure about pay of high-paid executives
- Remuneration committee chair to face re-election if report gets less than 75% approval
- Non-executives to spend up to 50 per cent more time on the job
- Non-executives to face tougher scrutiny under FSA authorisation process
- Chairman of board to face annual re-election
- Financial Reporting Council to sponsor institutional shareholder code
- FSA to monitor conformity and disclosure by fund managers.

In 2012, the government has announced plans to introduce further measures to strengthen the governance framework and legislation in this field. Evidently, the need for governance rules and regulation is widely held to be the result of asymmetry of interests between the owners of a company and its managers. This clash of interests is the province of agency theory, which therefore forms a key part of this study. The attention of Section 2.2.1 will focus on this influential theory.

2.1.3.1 Summary

The above discussion has shown that during the past 20 years there have been repeated investigations of the function, conduct and governance of corporate boards and directors' behaviour, resulting in many reports, guidelines and codes of best practice. These, in turn, have been revised and reintroduced in attempts to target the latest issues emerging in the corporate world. Yet despite all the reports and codes, published in a piecemeal way, there is no measurable cumulative effect - and similar problems keep recurring. It is this resilience of the underlying problem, and its refusal to yield to reform, that is clearly of particular concern.

2.2 Agency and managerial power theories

Corporate governance and executive compensation has come under intensive theoretical and empirical discussion by academics from an array of disciplines, ranging from accounting to economics to law to finance and organisational strategy (Murphy 1999; Canarella and Nourayi 2008). For instance, as noted by Farmer (2008), accountants such as Healy (1985) have examined the correlation between earnings manipulation and accounting based incentives; whereas Baiman and Verrecchia (1995) have explored and compared market-based and accounting-based measurements to determine their respective effectiveness.

Further, Jensen and Murphy (1990) and other financial economists have studied extensively the association between incentive pay and shareholder value; soon after, 'the effect of investment decisions, capital structure, dividend policies, mergers and diversification on executive compensation' have also been investigated (Murphy 1999 p2, cited in Farmer 2008 p3). More recently, organisational scholars and economists have explored the relationship between company performance and the quality of governance practices such as duality of CEO-chairman positions, board composition and diversity and effectiveness of the board and its subcommittees (Ho 2005; Cravens and Wallace 2001; Brennan 2006).

In reviewing the literature, one can also see that although corporate governance and executive pay research employs a wide variety of theoretical frameworks including tournament theory, organisational strategy theory, stewardship theory and so on (see Table 5 for a list of examples), it is an agency perspective on which most studies draw (Section 2.2.1). However, while agency theory provides many credible and useful insights, one can argue that it may not be sufficient to base the present study on a single theory, as many predecessor studies have done. In order to provide a more objective and rounded discussion in later chapters, it is important also to view the subject from the standpoint of other relevant theories, chief among which is managerial power theory (Section 2.2.2).

Managerial power theory is relevant to the present study because it appears to complement agency theory effectively when examining corporate governance and pay issues. For example, it provides potential explanations as to why the monitoring mechanisms proposed by agency theorists to control and oversee executives are not as effective as expected. Therefore it was decided to employ the two theories side by side - managerial power theory and agency theory - providing complementary analytical positions for examining the relationships between corporate board and CEO/management.

Table 5 Theoretical perspectives employed in executive compensation research

Theoretical Perspective	Year	Author(s)
Agency theory	1976	Jensen and Meckling
	1983	Fama and Jensen
	1983	Larcker
	1986	Jensen
	1988	Gibbons
	1988	Baker, Jensen and Murphy
	1989	Eisenhardt
	1990	Jensen and Murphy
	1992	Gaver et al
	1994	Zajac and Westphal
	1996	Barney and Hesterly
	1996	Stroth et al
	1997	Davis et al
	1998	Core et al
	1998	Sanders and Carpenter
	1999	Benito and Conyon
	1999	Fosberg
	1999	Himmelberg et al
	2001	Bebchuk et al
	2001	Dennis
	2001	Lambert
	2002	Pye
	2001	Roberts
2003	Buck et al	
2005	Perkins and Hendry	
2007	Harford and Li	
2008	Dey	
Expectancy theory	1997	Ezzamel and Watson
	2007	Bender
Game theory	1993/07	Noldeke and Samuelson
	1998	Fehr and Harbord
	2002	Lee
Human capital theory	1998	Conyon
	2000	Conyon
	2005	Conyon

Source: this author

Table 5 Theoretical perspectives employed in executive compensation research (continued)

Theoretical Perspective	Year	Author(s)
Information processing theory	1998	Conyon and Peck
	2001	Conyon and Sadler
	2002	Conyon et al
Managerial power theory	1995	Pettigrew and McNulty
	1998	Buchholtz et al
	1999	Molm et al
	2003	Bebchuk and Fried
	2006	Brennan
Neoclassical theory	1996	Powell
	1998	Buck et al
	1999	Molm et al
	2001	Roberts
Organisational strategy theory	1990/92	Balkin and Gomez-Mejia
	1999	Rindova
	2010	Gomez-Mejia et al
Relative performance evaluation theory	2002	Stiles and Taylor
	1996	Ogden and Watson
Social comparison theory	1988	O'Reilly et al
	1992	Crystal
	1996	Ogden and Watson
	1997	Cosh and Hughes
	1998	Conyon and Peck
Stewardship theory	1991	Donaldson and Davis
	1997	Davis et al
	2004	Van den Berghe and Levräu
	2007	Nicholson and Kiel
Tournament theory	1981	Lazear and Rosen
	1986	Rosen
	1988	O'Reilly et al
	1992	Crystal
	1993	Main et al
	1998	Conyon and Peck

Source: this author

2.2.1 Agency theory

Rooted in finance and economics, agency theory is a well-applied and long-established theory that has been used to explain the issue of separation of ownership and control within organisations. It postulates that an organisation consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen and Meckling 1976).

As noted in Chapter 1 (Section 1.1), the theory is largely based on the idea that 'agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents'. It also assumes that 'principals and agents act rationally and that they will use the contracting process to maximise their wealth' (Sarens and Abdolmohammadi 2007 p3). This means that because agents have self-seeking motives, they may be tempted to take the opportunity to act in their own self-interest rather than in the best interests of the company - a dilemma that is often referred to as 'the moral hazard' problem (Jensen and Meckling 1976).

In general, agency theory can be applied in various contexts such as:

- Intra-organisational relationships of power and control between principals and agents including main board executive directors vs non-executive directors/chairmen, shareholders vs managers, and managers vs supervisors (Barney and Hesterly 1996; Scott 1998)
- Organisational relationships of power and control between principals and agents including headquarters vs subsidiaries (O'Donnell 2000) and mergers and acquisitions (Graebner and Eisenhardt 2001; Lane et al 1998)

Yet it is the problem inherent between senior executives (agents) and shareholders (principals) that is of most interest to us in the present context. This section of the literature review gives a brief introduction to the emergence and early development of agency theory together with the core assumptions of agency models. The central problems and concerns around the theory are also considered. Finally, some of the ways in which organisations may respond to agency problems and costs are reviewed.

2.2.1.1 Background to agency theory

Agency theory can be traced back to Adam Smith (1776) and his discussion of the 'problem of the separation of ownership and control' where he argued that 'managers of other people's money cannot be expected to watch over it with the same anxious vigilance' one would expect from owners and that 'negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company' (p324).

The theory has since been used by scholars in many fields such as accounting, economics, finance, marketing political science, organisational behaviour and sociology (Eisenhardt 1989). Organisational economists - agency theorists - in particular tend to focus on the market for corporate control, exploring the source of inefficiencies and how they can be remedied. Put simply, their primary interest lies in examining the role played by politics and power in the efficient functioning of corporations and markets (Barney and Hesterly 1996).

Early work in agency theory centred on examining incomplete information in insurance sector contracts and borrowed significantly from the economics of information literature, which was the precursor to the application of agency theory in the fields of strategic management and organisation theory (Ross 1973). In the meantime, additional literature dealing with the moral hazard associated with inequitable distribution of information in the principal-agent relationship was explored in the 1960s and 1970s under the label of risk sharing (Holmstrom 1979; Wilson 1968).

Building on the risk sharing literature and underlying assumptions that the rational individual will act from a position of self interest and seek to maximise material returns (Worsham et al 1997), agency theory was further developed to including the problem associated with co-operating parties having differing goals (Jensen and Meckling 1976). A substantial amount of research addresses the agency problem and much of it was carried out using some core assumptions which are to be examined in the following section.

2.2.1.2 Assumptions of agency theory

For agency theorists, there is no difference between firms and markets in terms of how cooperation is achieved, and in how firms and markets operate and produce coordination (Jensen et al 1976a). Thus, they consider the price mechanism to be operative within firms. In

addition, some of the core and fundamental assumptions commonly grounded in agency theory include the followings (Eisenhardt 1989; Hendry 2002; Williamson 1975):

- Human assumptions - principals and agents are:
 - Bounded rational
 - Self-interested/self-seeking
 - Opportunistic
 - Risk averse.

- Organisational assumptions:
 - Goal incongruence
 - Efficiency criterion
 - Asymmetric information distributed between principals and agents.

These assumptions are dealt with in literature as far back as Berle and Means (1932). In explaining agency theory, they noted a divergence of interests between owners and managers of any organisation. They pointed out that an owner is in a position to both manage a firm and delegate the management of the business in order to maximise profits. The manager, however, only operates a firm presumably for the benefit of the owners.

However, Berle and Means suggested that, in reality, the major aim of the manager is more likely to run the company for his 'personal profits'. Their argument was supported recently by Bebchuk and Fried who maintained that agents, may it be the CEO or other board executives, are primarily concerned with maximising their own personal outcomes and that '[w]hen they can get away with it, managers like to have their cake and eat it too; they prefer to receive a given amount of monetary compensation without cutting managerial slack' (Bebchuk and Fried 2004 p63, cited in O'Neil 2007).

Further, Davis et al (1997 p22) noted that within the agency framework agents often try to attain as much utility with the least possible effort and risk. Williamson (1975) termed such a phenomenon 'opportunism' whereby people act with 'self-interest and guile in pursuing their own goals'. Short (2000) confirmed this, stating that the agent's private benefit of control leads to empire building perquisites, entrenchment and biased decision making. The agent may also

engage in philanthropic or ethically motivated behaviour with respect to stakeholders, which may not be in the best interests of the shareholders (Hendry 2002). Similarly, according to Sapienza et al (2000) problems associated with agency are exacerbated because of the interests of the principals and the agents are in conflict ('goal conflict') and because of 'information asymmetry' between the two parties.

With the underlying assumptions set out above in mind - especially if an emphasis was to be placed on the one highlighting the 'lack of congruence' (Fama and Jensen 1983; Fama 1980) between the goals of principals and agents - it is not difficult to understand that tension can easily emerge between principals and agents, i.e. shareholders and management in a corporate context.

The next section will discuss central issues surrounding the principal-agent relationship proposed by the theory.

2.2.1.3 Central problems with agency theory

Simply put, 'the language employed by agency theory pertains to the situation - one that is basic to the structure of all organisations - in which one party, the principal, seeks to achieve some outcome but requires the assistance of another (the 'agent') to carry out a necessary activity' (Scott 1998, cited in Duztas 2008 p30). This liaison between the two parties is commonly known as the 'agency relationship' and it has been defined as, '...a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involved delegating some decision making authority to the agent.' (Jensen and Meckling 1976 p5).

Empirical evidence indicates that many of the most widely examined agency problems stem from the separation of ownership and control:

- 'Agency problems occur whenever the principal delegates authority to the agent, and the welfare of the principal is affected by the choices of the agent.' (Arrow 1985, cited in Barney and Hesterly 1996 p124)
- The delegation of decision making authority from the principal to the agent is problematic (Barney and Hesterly 1996)

- Conflicts arise when there is a separation of ownership and control and when agents and principals have different attitude and preference toward risk (Jensen 1986).

There are, in general, three main sources of principal-agent problems that are faced by almost all large modern corporations (Akerlof 1970; Spence 1973; Arrow 1985; Rothschild and Stiglitz 1976), namely:

- Moral hazard
- Adverse selection
- Asymmetric information.

Broadly, the central dilemma that has been subjected to much investigation by agency theorists in a management context is how to align the interests of senior executives to those of shareholders, as evidence tends to suggest that alignment can and does play a major role in alleviating the underlying agency problems. However, there are a number of apparent hindrances that make the alignment of interests between the principals and the agents rather difficult to achieve in practice.

Firstly, as pointed out earlier, agents are more likely to be seeking to maximise personal returns, because their behaviour is largely driven by rational self-interest, risk-aversion and effort-aversion (Eisenhardt 1989; Fama and Jensen 1983; Jensen and Meckling 1976). And more than that, they also have an information advantage over the principals and divergent goals or interests which in effect makes the task of getting the agents to act and behave in the best interests of the principals all the more difficult.

While attempting to reduce the probability of opportunistic agent behaviour incongruent with their own goals and to better align their interests with those of the agents, principals inevitably incur 'agency costs' (Barney and Hesterly 1996). Agency theory divides such costs into structuring costs, monitoring costs, and costs of bonding a set of contracts (Jensen and Meckling 1976; Fama and Jensen 1983; McColgan 2001) and they are largely borne by the principals.

Furthermore, it is widely recognised that many monitoring and control procedures, such as the use of contracts and the setting up of mechanisms and systems to observe and measure the behaviour of agents, can be relatively costly; yet since they are considered as necessary to align

the actions of the managers with their own (Jensen 1994) principals often have little choice but to bear the costs and put the required procedures in place. Accordingly, the ultimate challenge with which the principals are faced is not just to attain optimal alignment but also to achieve it in the most cost effective manner.

2.2.1.4 Criticisms of agency theory

The central problems and concerns that lie within a principal-agent relationship have been subject to much scrutiny over the years. One of the most widely criticised aspects of agency theory is its assumption that agents are invariably intrinsically opportunistic and selfish which has been questioned by, for example, stewardship theorists, who posit that executives, if left alone, will manage responsibly the assets that have been placed under their care.

Expectancy and goal setting theorists would argue that senior executives are not motivated purely by extrinsic rewards such as money, benefits and perquisites, so it is futile for agency theorists to advocate incentive pay quite so strongly. Motivational theorists believe that monetary reward alone is not enough to align interests. Other factors such as work environment prestige, status, the company's reputation and organisational culture all affect motivation.

According to managerial power theorists, Bebchuk and Fried (2006) in particular, the use of a compensation contract and share incentives is often ineffective because senior executives tend to have the power to influence others by way of manipulating their own remuneration to suit their personal preferences.

A recent study by Pepper et al (2012 p1) also found long term incentives plans not to have met expectations and argued that agency theory, in its current form, 'does not provide a sound basis for modelling senior executive reward' and proposed that a re-theorising is necessary and should build on the behavioural agency model as suggested by Wiseman and Gomez-Mejia (1998). These findings and arguments are highly relevant to the present study, thus, managerial power theory, which will be described and explained in later in Section 2.2.2, is to form a significant part of the discussion in Chapters 6 and 7.

In addition, as identified by Huse (2007) many scholars have directed their criticism at the 'wrong focus of agency theory' as illustrated in Table 6.

Table 6 Criticisms of agency theory

Theorists	Criticism
Process	Not addressing the processes
Transaction cost	Not addressing governance mechanisms
Game	Focusing on only one direction of the agency relationship

Source: Huse (2007 p50)

Another area in which agency theory has been questioned is that it makes erroneous assumptions, something that has partly been considered earlier. The commonest criticism concerning agency theory's incorrect assumptions include the following (Huse 2007 p50):

- Human behaviour - opportunism versus altruism
- Shareholder value supremacy
- Separation of ownership and control versus paternalism and role integration
- Time perspective and discrete contracts (relational norms).

Similarly, as pointed out by Tricker (2009) many critics have challenged the over simplistic nature of agency theory:

'Some critics of agency theory cite its relatively narrow theoretical scope. To study the intricacies of corporate governance in terms of contracts between principals and agents, they argue, is naïve...Such critics believe that board behaviour does not consist of sets of contractual relationships, but is influenced by inter personal behaviour, group dynamics, and political intrigue. They question whether the subtle and complex dynamics of board behaviour lend themselves to measurement and numerical analysis.' (Tricker 2009 p222).

Moreover, a number of academics have gone even further and argued that agency theory has impacted society in a negative way. For example, Ghoshal (2005) suggested that our societies are 'less well off' as a result of 'bad management theories' such as agency. In addition, Ghoshal also claimed that many poor management practices were born out of the extreme underlying assumptions in agency theory which, in turn produced dysfunctional companies. He even boldly blamed agency theory for being one of the key causes of some of the major corporate debacles (e.g. Enron and Andersen).

Despite all the criticisms, agency theory is still widely used today in not only corporate governance and pay research, but also many other disciplines. But why is this the case? An attempt to answer this question will be presented later in Chapter 5. The justifications for this study to employ this theory will also be discussed.

2.2.1.5 Responding to agency problems

The causes and effects brought about by agency theories do not only attract the attention and interest of shareholders and practitioners, but also those of academics. Hence, a vast amount of research has already been conducted into the area of agency conflicts. Differing researchers have identified and subsequently argued over the effectiveness of the various ways (by means of controls and mechanisms) that may help mitigating agency costs and aligning the interests of managers with those of the shareholders (Jensen and Meckling 1976; Fama and Jensen 1983; Jensen 1986; Himmelberg et al 1999).

Nevertheless, there is a consensus that organisations and shareholders have to take steps to exercise control over management so as to alleviate the agency problems. Seven main classes of control have been identified by McColgan in 2001 upon gathering the key findings from some of the major published papers and are presented in Table 7 overleaf.

Undoubtedly, each and every one of the above controls for countering the problem of agency does have its own merits. Yet, in the present study, emphasis is placed on the two specific recommendations that have recently been subjected to much scrutiny by policy makers, investors, the public at large and above all, the media:

- Board structure, attributes and roles, and
- Executive pay.

Particular attention is given to the use of incentives and to the improvements in the corporate governance processes respectively. The research findings from the literature on these two areas are examined later in this chapter (Sections 2.3.1 and 2.3.2), following a discussion on managerial power theory.

Table 7 Controls on agency problems

	Mechanism	Theory	Empirical Evidence
1	Managerial Labour Market	Managerial labour markets will discipline poorly performing management through salary revisions (Fama 1980).	External labour markets use evidence on past performance in defining executive job opportunities and compensation levels (Gilson 1989).
2	Corporate Boards	Boards should split the positions of CEO and chairman to improve monitoring and prevent one individual dominating the board (Cadbury 1992). Effective boards should be largely comprised of outside independent directors to ensure better monitoring of management (Fama and Jensen 1983). Boards are less effective as they grow in size as decision making becomes slower and the CEO is able to dominate with greater ease (Jensen 1993).	CEOs are more likely to be removed for poor performance on outsider dominated boards (Weisbach 1988). Performance related top management turnover is strongly related to the proportion of outside directors on the company's board but negatively related to board size (Dahya et al 2000). Market reaction to appointment of outsiders depends upon the extent of company's agency problems and the characteristics of the appointee (Lin et al 2000).
3	Corporate Financial Policy	Monitoring from external capital markets when issuing debt reduces agency problems (Easterbrook 1984).	
4	Blockholders and Institutional Investors	Different types of blockholders perform different functions within organisations (Bethel et al 1998). Greater need for distinction between different types of block investors (Mehran 1995).	Positive market reaction to the appointment of an affiliated outsider (including those from blockholders) to the board (Lin et al 2000). Only activist investors discipline management in poorly performing companies (Bethel et al 1998).
5	The Market for Corporate Control	Threat of takeover not enough to ensure complete alignment between managerial goals and shareholder wealth because of takeover costs (Jensen and Ruback 1983).	
6	Executive Compensation	Higher managerial incentives lead to higher corporate performance (Jensen and Meckling 1976). Equilibrium in managerial labour markets will prevent large salary revisions for poorly performing managers (Jensen and Murphy 1990). At some point managers will yield to behavioural notions of fairness and loyalty in their decision making and not be driven by financial incentives alone (Baker et al 1988). The level of pay determines where managers work, the structure of their compensation contracts will determine how hard they work (Baker et al 1988).	For every \$1,000 change in shareholder wealth, CEO salary changes by 2 cents (Jensen and Murphy 1990). Higher accounting earnings in year prior to removal of CEO (Weisbach 1988). CEO remuneration significantly changed by 75 cents for every \$1,000 change in firm value (Jensen and Murphy 1990).
7	Managerial Share Ownership	As managerial share ownership increases so does their incentive to maximise company value (Jensen and Meckling 1976).	Significant relationship between changes in shareholder wealth and the value of executive shareholdings (Benston 1985; Jensen and Murphy 1990).

Source: McColgan (2001)

2.2.2 Managerial power theory

The extant literature on Managerial Power Theory has investigated compensation decisions largely from the point of view of a board of directors that seeks to establish optimal executive contracts in order to mitigate agency conflicts and reduce related costs (refer to Section 2.2.1.3). However, Hengartner (2006) noted that a growing body of research posits that the process of pay determination is in many ways better described as a negotiation between the board and top management, the CEO in particular. It is further argued that the power of executives to influence the board and other stakeholders provides an explanation for the lack of positive and consistent results in research into the effectiveness of corporate governance practices, executive pay in particular. For instance, as cited in Hengartner (2006 p66):

- Hermalin and Weisbach (1998) modelled a bargaining game in which the CEO pay is negotiated between the two parties.
- Bebchuk et al (2001) postulated that the CEO's power over the board of directors distorts optimal compensation contracts and that the existing empirical evidence better supports the bargaining model than the optimal contracting paradigm.
- Gomez-Mejia and Wiseman (1997 p320) suggested that 'executive pay is a compromise between CEO power to inflate their compensation and societal pressures on boards to limit CEO pay.'

Moreover, managerial power is in fact at the heart of agency theory (Fama 1980; Jensen and Meckling 1976) in that, for example, the 'information asymmetry' problem recognised by agency theorist (see Section 2.2.1.2) stems essentially from the imbalance of power between shareholders and the senior executive team. Given all the above, it is evident that managerial power theory deserves more attention in research into corporate governance and executive pay. Yet, empirical literature on power is scarce and has so far yielded ambiguous results (Hengartner 2006). There are a few reasons found in the literature:

- There is insufficient operationalisation of power variables (Grabke-Rundell and Gomez-Mejia 2002) and better constructs and operationalisation of variables are necessary to capture the full picture of how more powerful CEOs, as opposed to less powerful ones, manage to influence the board.
- A valid construct measuring cross-sectional differences in managerial power and its influence on compensation is still missing (Bebchuk and Fried 2003).
- 'Management power is hard to prove' (Bratton 2005 p18).

A broader conceptualisation of power in the context of executive compensation was called for as early as the mid-1990s (Finkelstein and Hambrick 1996), however, it seems that the call is still unanswered.

Nevertheless, an overview of managerial power theory should prove useful as the focus of the present study in executive pay, and as mentioned above, there has been an increasing amount of support for a managerial power explanation of executive pay and why pay is often high and non-performance related (Bebchuk and Fried 2003; Gomez-Mejia and Wiseman (1997).

2.2.2.1 Defining executive power in the context of corporate governance

One reason that there is little research into the question of executive power is that there is currently no widely agreed definition of power itself (Hardy and Clegg 1999). However, some researchers into management have drawn a distinction between legitimate power and illegitimate power (Hengartner 2006).

Hardy and Clegg, for example, hold that legitimate power arises from the organisation's hierarchical structure and is about the relationship of the offices to each other (Hardy and Clegg 1999). As far as boards of directors are concerned, corporate structure clearly grants formal power to the board over its executives, because it is the board's prerogative to hire and fire the top management team. As this relationship is virtually inevitable, researchers have looked elsewhere at 'illegitimate' power - that is power that is exercised outside of the formal organisational structure. One result of this is that researchers have tended to view the exercise of power as being synonymous with selfish behaviour.

There are two power theories that focus on dependencies arising within the organisation (Hengartner 2006 p67). 'Strategic contingency theory of intra-organizational power' (Hickson et al 1971) is based on the premise that power is related to the control of uncertainty. In this theory, the most powerful sub-units in the organisation are those that are least dependent on other sub-units and hence are able to deal with the greatest level of uncertainty. A second view, similar to the strategic contingency idea, is the resource dependency view (Hardy and Clegg 1999). In this view, 'power stems from information, uncertainty, expertise, credibility, stature and prestige, access to and contacts with higher status personnel and the control of money, rewards and sanctions' (French and Raven 1986; Pettigrew and McNulty 1995, cited in Hengartner 2006 p68). However, each of the factors listed can become more or less important as resources, depending on their context.

One feature that these theories have in common is that they provide a better understanding of how and why executives can become more powerful than their own boards. Executives, for example, may possess an advantage in terms of information or in having greater tolerance for uncertainty.

Of the various definitions proposed, the following definitions of power are used in the present study as they suit the governance and pay context of the research:

- Pfeffer (1980 p32) defines power as the ‘capability of one social actor to overcome resistance in achieving a desired objective or result’.
- Finkelstein (1992 p506) refers to power as ‘the capacity of individual actors to exert their will’.

These definitions are also used by Hengartner (2006). In his paper (2006 p75), Hengartner developed a framework that captures the different types of power that are related to governance and executive pay:

- **Ownership power**
 - Executive ownership
 - Non-executive ownership
 - Shareholder concentration.
- **Structural power**
 - Non-executive directors
 - Independent directors
 - CEO duality
 - Compensation committee
 - Board size.
- **Tenure power**
 - CEO tenure
 - Interdependent directors.
- **Network power**
 - Interlocking directors
 - Outside board memberships.

- **Credibility power**
 - Prior performance
 - CEO celebrity status
 - Education.

2.2.2.2 Background to managerial power theory and pay

The managerial power model begins by recognising the agency conflicts inherent in the relationship between shareholders and those they appoint to manage their assets and posits that executive pay is part of the agency problem as opposed to a potential instrument for addressing the issue: ‘...this [managerial power] approach... does not view executive pay primarily as a remedy for agency problem; on the contrary, the pay-setting process is itself seen as a major part of the problem.’ (Bebchuk and Fried 2004 p61). As explained by Hengartner (2006 p67), ‘...some features of pay arrangements reflect managerial rent-seeking rather than the provision of efficient incentives.’. The fact that surveys and studies ‘report huge (unexplained) variance in salary, bonuses and long term income of executives for companies of similar size, in the same industry, and performance at similar levels’ is considered by managerialists as an illustration of such argument (Gomez-Mejia and Wiseman 1997, cited in Hengartner 2006 p67).

Further, Bebchuk and Fried (2006 p62) also pointed out that the managerial power approach does not ‘assume that the board focuses solely on shareholders’ interests when negotiating executive pay arrangements...’, indicating that board decisions could be influenced by executive power. Simply put, it is conjectured that if the agent (i.e. top management) acquires growing influence over those who are charged with the responsibility for the pay determination process (i.e. the remuneration committee members as the agents of shareholders), the design and arrangements of the service contract might reflect management’s preferences which may lead to shareholder wealth creation being compromised (Zajac and Westphal 1996a; Grabke-Rundell and Gomez-Mejia 2002; Hengartner 2006).

To this end, managerialists have made a number of predictions about executive behaviour that is not constrained by shareholders or the board in attempting to explain why executives tend to act against proactively linking pay and performance (Weisbach 2007). For instance, executives are considered to be risk averse, an assumption that is shared by agency theorists, and may in effect decouple their remuneration from company performance and move the balance of the pay package towards components that are not at risk such as base salary (Dyl 1998). Another

example is that executives are found to be less likely to be fired, even if the firm's performance does drop (Salancik and Pfeffer 1980).

It is important to note that this concept of power is close to what finance scholars refer to as 'managerial entrenchment'. The difference between the two viewpoints has been concisely explained by Hengartner (2006 p73), '...executive pay itself is used as a governance mechanism determining the level of entrenchment...while executive power is a construct hypothesized to influence compensation level and structure, managerial entrenchment is a construct that includes compensation structure to explain other firm-level outcomes.'

Another hypothesis of managerial power theory is that even if the board is highly capable and effective, and if all the non-executives strive to carry out their duties with good intentions, without adopting self-serving behaviour, there are still limitations to the extent to which they can fulfil their role (Bebchuk and Fried 2004). There are factors beyond their control. And the presence of these factors (as outlined in Section 2.2.2.3 below) coupled with executive power may help explain why executives often escape the sanction of the full range of corporate governance and control mechanisms, including monitoring by the board and the threat of dismissal.

2.2.2.3 The effects of managerial power on governance mechanisms

Insufficient information

In many cases, the board may simply not be in possession of sufficient information for them to appreciate exactly what actions the executives are taking and exactly why they are taking them. As mentioned previously, this 'information asymmetry', an idea stemmed from agency theory, effectively keeps the executives' decisions cloaked in secrecy, as far as the board, shareholders and other stakeholders are concerned (Huse 2007). It would, for example, be possible for executives to decide to cut investment in Research and Development. Such cuts would have a beneficial effect on the profits figure in the short term, but might equally be handicapping the company's ability to remain competitive in the long term, by which time, the current management will have moved on (Hill and Hansen 1989).

Managerial power theorists consider that having the 'privilege' of being in the know and holding information invaluable to the overall control and operation of the company, enables executives (the CEO in particular) to have the upper hand over the board. In other words, information is power.

Growth and investment opportunities

As discussed previously, there is a relatively high degree of information asymmetry between managers and shareholders in modern corporations - a feature that is aggravated in companies that are growing in size because it is more difficult to observe managerial effort in 'growth firms' as they that are changing in prospect and directions (Smith and Watts 1992). As a result, there is greater potential for managerial opportunism.

In addition, growth companies tend to select compensation packages based on incentive rather than fixed compensation at least in part because of the difficulties of monitoring investment opportunities. Research in this area has shown that the level and kind of executive compensation vary with the investment opportunity set of the firm. Smith and Watts (1992) and Gaver and Gaver (1993 and 1995) found that companies with more growth options have higher executive compensation (Hengartner 2006 p31).

Fragmented share ownership

In many companies, the share ownership is fragmented and held by many investors, who are geographically isolated, so it is difficult for them to concert their action, and make a common cause to bring the board to order. As well as being separated by distance, each shareholder may have only relatively small investments at stake and so does not have a compelling motive to take serious action.

Market forces

Bebchuk (1992 p1461-1467) observed that, although market forces can correct some aspects of agency problems in relation to executive decisions, it is not always an effective deterrent. 'In particular, market mechanisms cannot deter managers from exploiting opportunities to take significantly redistributive actions - actions that transfer to managers value that is not much smaller than the resulting loss to shareholders. In such cases, the benefits a manager reaps by taking the action is likely to exceed the penalty the markets might impose on him or her for the resulting share price decline.'

Similarly, Bebchuk and Fried (2004) reiterated that while market forces do place certain constraints on executive compensation, they are in general inadequate to align these interests, 'these constraints [placed by market forces], however, are far from tight enough to ensure that compensation arrangements do not substantially deviate from what arm's-length contracting would produce.' (Bebchuk and Fried 2004 p53). The authors also pointed out that the market for corporate control is seen as important in aligning the interests of executives and shareholders simply because a company that performs poorly, and whose share price declines, thus becomes vulnerable to takeover. The existing board's jobs would be at stake in such a situation.

If market competition for control does not impose discipline on executives, what about the market for capital? Surely, a board that wishes to go to the public to raise additional capital must be seen to be conforming to accepted standards and norms of corporate governance when it comes to compensation? To depart significantly from pay arrangements that would be arrived at by arm's-length contracts would deter potential investors. However, the literature suggests that most companies go to the equity market to raise capital very rarely, if at all. According to Bebchuk and Fried (2004 p56), the primary source of capital for public companies is retained earnings, with debt and equity coming second and third respectively.

Outside connections and the external labour market

As mentioned above, some managerialists have expanded the definition of 'power' to include executives' social network. The kind of networks developed by the CEO include people from their education and past employment but also other social activities such as golf clubs and charities. According to managerial power theory, this wider social network often gives the CEO the power to influence their board and increases their ability to negotiate a more favourable pay deal for themselves (Barnea and Guedj 2006, Larcker et al 2006; Horton et al 2009).

Brown et al investigated the impact that a CEO's networking has on their own compensation in 2009 and demonstrated that 'the size of the CEO network is positively related to the level of CEO compensation and inversely related to its pay-performance sensitivity.'. This finding echoed an earlier study by Muth and Donaldson (1998), who also found that boards whose executive directors were well connected performed better than firms that followed codes of corporate governance on the use of independent directors.

In addition, researchers have pointed out another significant benefit of having a larger social network that equips executives with even greater power. And this power comes from the

external labour market. Put simply, it is recognised that one of the most powerful tools held by any executive is the threat to resign or to withdraw their services temporarily (Jensen and Zajac 2004), and evidence suggests that the more external social ties one has, the more information about alternative positions and vacancies one is likely to receive, and thus the higher the chances of obtaining a new job or securing a better contract with the current employer through the threat of resignation (Wegener 1991 and Brown et al 2009).

Personality traits

Individual personality traits are rarely taken into account when considering how executives will respond to their remuneration package (Hengartner 2006). In fact, individual differences may well be an important factor in designing compensation. Gomez-Mejia and Balkin (1989), for example, found that individuals with a low risk propensity and a low tolerance for ambiguity do not react well to packages that are based on variable arrangements such as bonuses and long term incentives. If an executive is highly risk averse and strongly prefers certainty then providing compensation based on risk may well be counter-productive when it comes to making strategic decisions, to the detriment of the company's performance. As personal information, such as degree of tolerance to risk, is rarely available and is difficult to measure, little attention has therefore been paid to these factors in past research (Hengartner 2006).

A review of past research on corporate governance is presented next.

2.3 Corporate governance research

This section discusses the findings of past corporate governance research that focused primarily on internal mechanisms and is organised into two parts: the first reviews studies that examined board structure and attributes while the second considers the extensive literature on executive pay.

2.3.1 Expectations of structural governance mechanisms

The UK corporate governance model places significant emphasis on internal mechanisms. The guidelines typically offer recommendations on 'appropriate board structures and processes that protect the interests of the owners, and reconcile them with those of management and other stakeholders, including the communities within which they operate.' (Ho 2005 p213). The importance of the board is recognised by academics, too, and is often viewed as the principal

governance structure for shareholders in public companies (Romano 1996). As Brennan put it, 'The board of directors is the official first line of defence against managers who would act contrary to shareholders' interests.' (Brennan 2006 p579).

In general, it is perceived that the performance of the board's oversight responsibilities depends on the effectiveness and performance of the board itself, which in turn is influenced by factors such as board composition and quality, size of boards, duality of CEO/chairman positions, board diversity, information asymmetries and board culture (Ho 2005; Cravens and Wallace 2001; Brennan 2006). Simply, it is expected that having these governance structural drivers in place to improve the board monitoring function will foster good corporate governance.

A summary of the findings of research into the quality of governance practices will be presented next.

2.3.1.1 Literature on board structure and attributes

The literature on corporate governance has become extensive over the past 30 years and has focused not only on control through compensation, but also through board controls (Jensen and Meckling 1976; Ross 1973) including:

- The narrowing of alternative actions through monitoring by the board of directors, i.e. reduction of power and discretion (Fama 1980; Fama and Jensen 1983; Jensen 1983).
- The strengthening of the governance structure of organisations whereby board of directors keep potentially self-serving managers in check by performing audits and performance evaluations (Fama and Jensen 1983a).
- Rebalancing the composition of the board to include at least some outside directors to monitor the performance of the CEO and other managers (Mizruchi 1983; Baysinger and Hoskisson 1990).

A significant proportion of the more recent research has examined the connection between the board and company performance, many of which directly analysed the impact of the various board attributes such as:

- Board size (Eisenberg et al 1998)
- Board independence (Bhagat and Black 1999, 2002)
- Board structure (Fosberg and Nelson 1999; Dedman 2002)
- CEO's role (Finkelstein and Boyd 1998; Sander 2001)
- CEO duality (Gray and Canella 1997; Conyon and Peck 1998; Ryan and Wiggins 2001)
- Composition of board (Hermalin and Weisbach 1991; Dalton et al 1998; Rhoades et al 2000; Barnhart and Rosenstein 1998; Wagner et al 1998; Beatty and Zajac 1994).

However, 'given the importance of the subject and the level of research activity', as noted by Nicholson and Kiel (2007 p585). 'it would seem reasonable to expect that a clear and demonstrable link between the board and corporate performance has been established'. In reality, though, 'despite a sustained effort...researchers have so far failed to identify this link.' (p585). This observation is clearly based on the fact that none of the studies listed above actually produced any positive findings. Rather, the majority showed no correlation at all or a small yet conflicting link. Worse still, an analysis conducted by Donaldson and Davis (1994) suggests that certain roles have a negative rather than positive effect on performance and that adoption of non-executive dominated boards might have negative effects on corporate profit and shareholder returns. Similarly, a number of other studies find that the presence of independent directors may actually harm performance suggesting that they do not bring the requisite skills to the job (Yermack 1996; Bhagat and Black 1998; Agrawal and Knoeber 1996; Weir and Laing 1999). One could argue that although it is highly important for a board to have a fair independent director representation, it is equally important to have sufficient executive directors of the necessary experience and credentials available to run the company effectively.

More recently, Brennan (2006) reviewed another set of research where academics have examined the relationship between board attributes (such as independence) and those corporate activities thought to impact on shareholder wealth:

- Board structure and CEO compensation (Fosberg 1999)
- Board structure and corporate diversification (Hill and Snell 1988; Baysinger and Hoskisson 1990)
- Board structure and the adoption of takeover defences such as poison pills (Brickley et al 1994; Coles and Hesterly 2000)
- Board structure and the use of long term incentives (Zajac and Westphal 1994).

Once again, despite years of reforms, it is disappointing to find that mainly negative results have been reported. In many cases, researchers have been ‘. . . unable to identify any correlation at all’ (Brennan 2006 p582). There were only few exceptions where positive results have been observed: a study carried out by Pearce and Zahra in 1991 reported a positive link between company performance and outsider ratios (executive directors vs non-executive directors). And there is some evidence that compliance with the Cadbury recommendations enhances board oversight with respect to the manipulation of accounting numbers and the discipline of the top executive (Dedman 2002). However, on the whole, the results have not been encouraging.

In addition, another set of research based on theoretical studies has been carried out during the last decade (Brennan 2006). Researchers examined the effectiveness of various internal structural drivers and attempted to establish a link between corporate governance and company performance - but to no avail. A considerable number of conceptual models discussing the causal relationships between the two variables have been produced (Ho 2005 p213):

- The behavioural agency model (Wiseman and Gomez-Mejia 1998)
- The finance model (Shleifer and Vishny 1997; Demirag et al 1998)
- The participative model (Collier and Esteban 1999)
- The policy governance model (Carver 1999)
- The political model (Pound 1992; Schwab and Thomas 1998)
- The stakeholder model (Buchholz 1992; Donaldson and Preston 1995)
- The stewardship model (Tricker 1994; Davis et al 1997; Keasey and Wright 1997)
- The strategic leadership model (Simons 1995; Charan 1998; Davies 1999; Forbes et al 1999).

Overall, there has been widespread hope that a well-structured board would lead to improved company performance and shareholder wealth. As summed up by Brennan (2006 p582), ‘if boards are effective their actions should be consistent with maximising value to shareholders’.

Due to this widely held assumption, governance codes often place much focus on the board as a key monitoring function. However, to date, theoretical and empirical research into corporate governance practices and their impact has not produced uniform or conclusive results in this regard. Why is this the case? Can corporate governance effectiveness really lead to superior company performance? If so, why then have research results been largely inconclusive or even negative in certain cases?

2.3.1.2 Board structure research outcomes - why the lack of positive results?

While the literature contributes somewhat to one's understanding of the various board attributes and board roles as internal governance mechanisms, the link between corporate governance and company performance in general remains elusive. Not only does the more ambitious general assumption - 'good corporate governance promotes superior company performance' appear to hold little truth or be false, but more than that, one could even question the validity of the widely accepted notion of - 'good corporate governance enhances board effectiveness'. With so many questions and doubts still remaining, it is particularly important to explore the reasons why corporate governance (best practice recommendations and guidelines) does not seem to enhance company performance as expected, and to seek some potential solutions.

Holistic research approach

Nicholson and Kiel's (2007) review of traditional board-performance and more recent board-behaviour studies offers a potential explanation as to why there is as yet no solid evidence showing a positive link between board attributes and company performance. They argue that it is important to 'understand the processes that link the board of directors to [company] performance', instead of merely seeking evidence for 'a parsimonious relationship (such as simple correlation) between the two' (p586). They look at the whole process thought to link boards to company performance by examining three key paradigms that guide corporate governance research; agency theory, stewardship theory and resource dependence theory (p586). They find that there is no single universal theory applicable to the board-performance relationship, an indication that future research into the three areas should concentrate on identifying the conditions necessary for each theory to hold true. In terms of research agenda, it may be more productive to devise theoretical models along more integrative lines, to get a holistic view of the link between board of directors and company performance link (p604). Their research also indicates that boards need to make sure they are acting to fulfil the wishes of its shareholders and that defects in performance can arise because the board does not fully understand what the company's owners require of it. Their recommendation is a clear specification of what constitutes corporate performance (p603).

Similarly, Ho (2005) supports the idea of adopting a holistic approach. He says that many past studies have gauged the effectiveness of corporate governance mainly by measures of performance and that this approach cannot completely reflect a company's competitiveness. Instead, he claims that taking the holistic approach he recommends has successfully established

a positive link between company competitiveness and board attributes. Ho's research also demonstrates that there is no one-size-fits-all model of corporate governance (p248).

Non-executive directors vs strategic management

Non-executive directors are often expected to protect shareholders' interests while the day-to-day running of the company and driving of business performance is widely regarded as the duty of executives. Pye (2002) has a different view. He argues that if non-executives had a greater role in the operation of the business, the likelihood of achieving an effective board, shareholder alignment and a more desirable and protected environment might increase, which in turn would improve company performance.

Finkelstein and Hambrick (1996) are also advocates of involving non-executives in strategy formation. They back their views by noting that non-executives already have (also are competent in) the strategic task of monitoring top management, being involved in such issues as executive succession, executive compensation and take-over defences. Hence they believe that in addition to managerial monitoring, non-executives also should be and would be competent at dealing with issues such as diversification, resource management and strategic change.

Governance model: stakeholder model

As the UK governance model is based on recommended internal governance mechanisms, Agrawal and Knoeber (1996) argue that given the opportunity companies will make optimal choices in relation to their internal governance structures. They also suggest that, with less freedom to choose, internal mechanisms will become increasingly homogeneous and this will make it more difficult to ascertain which of them are effective. Hence, they question the usefulness of having prescriptive internal governance mechanisms. Weir, Laing and McKnight (2002) found that widespread compliance with the Combined Code 1998 makes it difficult to assess the effectiveness of the governance mechanisms. They suggest greater flexibility and a recognition that the mix of governance mechanisms may vary according to a company's specific circumstances as a possible solution.

If the internal mechanisms of board structure and board characteristics are not as effective as hoped, what about executive pay as a governance driver? Pay is the main focus of the present study and is also the issue that has attracted most attention from Government regulators, the media and the public.

2.3.2 Expectations of executive pay as governance mechanism

It is evident from the extant governance literature that the misalignment of interests suggested by agency theory creates the need for monitoring through an effective board, service contracts and above all executive pay arrangements (Jensen and Meckling 1976; Fama and Jensen 1983). To align the goals of the two parties, executive pay should be designed to sufficiently incentivise managers to make decisions that will not only increase their own wealth, but will also increase shareholders' wealth (Jensen and Meckling 1976.) For instance, Jensen (1994) stated clearly, 'Managerial decisions designed to strengthen organizations often meet with opposition from colleagues, employees... providing managers with incentives to compromise their decisions.' It is also suggested that the best way to increase the chances of managers making the best decisions possible is to ensure that the incentives ('trade-offs') they face encourage them to move in the correct directions. Jensen then went on to say that overall, the goal of the agent is to increase shareholder wealth, which in turn should result in improved firm performance and value.

Jensen's view is shared by many others. According to Gibbons (1998), incentivisation is needed to compensate managers for taking risks that go far and beyond the remit of agreed terms and conditions of their employment or engagement in the successful pursuit of the principals' interests. Thus, bonuses are seen as creating incentives for agents or managers to perform better than would normally be the case. In addition, Jensen and Meckling (1976) went further and suggested specifically that the use of options in remuneration contracts aligns incentives between agents and principals. They also recommended that use of share incentives ('equity ownership') to tie the managers' compensation to the level of the organisation's performance (Jensen and Meckling 1976). In addition, Rediker and Seth (1995) also suggested that incentive alignment is an integral part of the governance mechanisms that ensure profit maximisation because it plays a major role in controlling moral hazard.

The subject of remuneration forms an entire section of the UK's corporate governance code (Corporate Governance Code 2010, Section D: Remuneration), indicating that it is seen as an important component of good governance, and an effective way to align interests and mitigate agency costs. Most attempts to reconcile the interests of the company's owners and top management are structured not only around the 'stick' of monitoring through the board and regulation but also the 'carrot' of remuneration. While corporate governance seeks to curb self-serving behaviour by executives, pay arrangements are used to motivate executives to improve

company performance. The findings of recent executive compensation research will be discussed in the next section.

2.3.2.1 Literature on executive pay

Executive compensation has long been a topic of much academic debate but it has certainly attracted considerable renewed attention in the light of recent corporate governance reforms (Baden-fuller 2002; Conyon and Peck 1998a; Veliyath 1999). The recent literature (Conyon and Leech 1994; Keasey et al 1993; Hallock and Murphy 1999; Tosi et al 2000; Thompson 2005) has largely focused on two issues as pointed out by O'Neil (2007 p692): 'the overall levels of pay and the relationship between those amounts and company performance. The individual amounts of money involved are a regular subject of criticism in the business and general media; however, it is the lack of sensitivity of these amounts to financial performance and returns to shareholders that has been the major concern of academics.'

Following in the footsteps of the pioneering work by Jensen and Meckling (1976), many researchers have examined the causes and effects of the agency problem and the efficacy of executive pay in driving the desired performance (Veliyath 1999). In fact, this seminal article riveted not only the attention of academics but also that of policy makers and investors, for many of them have clearly drawn on the agency theoretical arguments to generate an extensive body of governance guidelines and codes (e.g. Greenbury Report 1995 and DRRR 2002). However, although Jensen and Meckling's contribution is widely recognised, empirical evidence in support of their arguments appears few and far between.

While robust linkages between executive compensation and company performance have yet to be established, there is consistent evidence of company size being a variable that has major influence on directors' remuneration (Benito and Conyon 1999; Conyon and Schwalbach 2000). Early studies such as Ciscel and Carroll (1980), Healy (1985), and Lewellen and Huntsman (1970) have all attempted to link executive pay to company size and profits, yet they have only managed to correlate pay with size and not performance. Subsequent research (Conyon et al 2000; Carpenter and Sanders 2004; Cordeiro and Veliyath 2003; Indjejikian and Nanda 2002; Yermack 1996) has also confirmed the same positive relation with company size.

Researchers continued to find the same positive pay-size relationship in the 1990s and 2000s (see Yermack 1995, Core et al 1999, Conyon et al 2000, Conyon and Murphy 2000; Tosi et al 2000, Carpenter and Sanders 2002, Indjejikian and Nanda 2002, Anderson and Bizjak 2003,

Cordeiro and Veliyath 2003, Conyon and He 2004, Bonet and Conyon 2005). Below is a summary of the latest studies that reported size being an important influence on executive pay:

United Kingdom

- 'The relationship between pay and performance remains weak and the link to firm size has, if anything been strengthened.' (Girma et al 2007 p65)
- 'Company size, sales, has a significant and positive impact on the total compensation level.' (Ozkan 2007 p25)
- 'Although performance has a positive impact on pay, firm size has a relatively larger impact.' (Guest 2010 p1804)
- 'CEO cash pay shows a significantly positive association with size...' (Ferri and Maber 2008 p21)
- 'Our main findings are that firm size has a dominant effect in determining the level of executive compensation.' (Gregg et al 2012 p27)
- 'The UK literature has found unanimously that company size is an important determinant of executive pay.' (Gregory-Smith 2010 p49).

Unite States

- '...CEO's pay will depend on both the size of his firm and the aggregate firm size in the market.' (Gabaix and Landier 2008 p49)
- 'The firm size appears to be a significant explanatory variable for CEOs' cash and total compensation.' (Nourayi and Mintz 2008 p524)
- Armstrong et al (2010) analysed over 200 US companies, and they concluded that total annual pay level is most highly correlated with firm size (market capitalisation).

United Kingdom and United States

- Guay (2010 p12) also argued that 'CEO pay increases with firm size' in both the UK and the US which is again consistent with prior research.
- Fernandes et al (2009, cited in Gregg et al 2012 p6) reported that the positive relationship between CEO pay and firm size documented in the US is pervasive across all countries, including the UK.

Yet, as noted earlier, after over half a century of executive compensation research, bolstered by repeated calls for methodological and theoretical rigour and pluralism, there still appears to be little consistent indication regarding the effects of directors pay on performance. To illustrate such inconsistency, some examples are presented below (see Appendix A for a summary of key executive pay studies since 1997, extracted directly from Devers et al 2007 p1044-1067):

Pay-performance link

- 'The overall impression one gains from this vast body of work is that a link between executive pay (including stock option payoffs) and corporate performance does exist. However, the link is quite weak, statistically significant, but far from compelling'. (Stathopoulos et al 2005 p91, cited in Farmer2008 p2)
- 'So the question about the pay-performance link still remains unanswered.' (Filatotchev et al 2007).

Agency conflicts

- A study by Lewellen et al (1987) demonstrates that compensation packages can, at least in some respects, be designed such that agency costs are somewhat reduced; whereas another similar but larger piece of research by Gaver et al produces rather contrasting results (1992).
- Baker et al (1988) also suggest that the likelihood of service contracts ensuring complete coherence between executives' decisions and shareholders wealth is not particularly high, with their argument being that 'at some point management will yield to behavioural notions such as fairness, which do not enter into the agency framework'.

Cash incentives

- Banker, Lee and Potter (1996) find evidence that executive incentives, especially bonuses that have been designed with accounting-based performance conditions are more likely to provide a more effective mechanism for interest alignments between management and shareholders.
- However, apart from reporting differing results, some researchers suggest that these bonus arrangements may lead to an over-focus on the performance targets attached to these incentive plans, resulting in executives neglecting other aspects of performance (Weisbach 1988; Dechow and Sloan 1991; O'Neill 2007). Brennan even (1994 and 1995a) suggests that extrinsic rewards alone may not be sufficient to align interests between management and shareholders.

Share incentives

- A number of researchers report evidence on positive reactions to the adoption of long term share-based incentives, suggesting such compensation arrangement being effective means of motivating management to act in their shareholders best interests (Larcker 1983; Brickley et al 1985; Bebchuk and Fried 2004). For instance, a study by Mehran shows a positive correlation between company value and proportion of CEOs total pay package which is based on share-based incentives (1995). These findings notwithstanding, there is literature that challenges the effectiveness of share incentives:
 - Conyon and Murphy (2000) argue that some research does appear to provide evidence of executive share incentives tying the wealth of management to their shareholders, but there is not sufficient evidence to show that such incentives can actually create or enhance shareholders value.
 - McColgan (2001) points out that that while shares options offer senior executives significant monetary incentives to improve performance, it seems also likely that they will reward non-performance or even failure during times of a bull market, such as that seen in the 'dot com era' in the late 1990s, which can be seen as problematic. Similarly, Bertrand and Mullainathan (2001, cited in Buck et al 2003 p1704) suggest that 'a proportion of total rewards based on share price has the potential to reduce agency problems, but introduces new ones: lucky executives may be rewarded when a firm's share price rises in line with general capital market trends'.
 - Perkins and Hendry (2005) find evidence that executives with greater ownership and/or more share-based incentives are not more likely to take value-enhancing actions but are rather less likely to take value-destroying actions; in other words, managerial ownership may be a qualifier rather than a differentiator.
 - Pepper, Gore and Crossman (2012) suggest that long term incentive plans are an ineffective way to motivate senior executives.

One reason suggested by researchers to explain this lack of positive results for the use of long term share incentives is that the share ownership and the level of incentives are 'too low' (Hengartner 2006). For example, Morck et al (1988) found that higher incentives lead to higher firm value, except among CEOs with very large fractional equity ownership. McConnell and Servaes (1990) also presented evidence of a positive relationship between increases in ownership and firm performance as long as managerial ownership is less than 50 per cent (Hengartner 2006 p24).

Hall and Murphy (2002) suggested another explanation when they argued that share incentives are not an effective means of motivating or rewarding executives who are risk-averse. They say that rewarding these executives with shares could cost the company more than paying them in cash. This view is based on the assumption that an executive who is risk-averse cannot rebalance his share portfolio if its value increases, and so will discount this increase in value.

Effects of managerial power

Many researchers have taken the acquisition of power as being one important determinant of executive compensation, but power is rarely measured in empirical research to determine its effects on the level and mix of executive pay (Hengartner 2006). The inconsistency of empirical findings may suggest that further research into the hypothesis of executive power would yield valuable results.

Some examples from the literature are set out below (Hengartner 2006 p71-72):

- Lambert et al (1993) researched the effects of executive power in 303 organisations between 1982 and 1984 on the compensation of top managers. They define power as equity ownership and selection of board members.
- Combs and Skill (2003) took founder status and CEO board tenure to derive a measure of executive power.
- Most recently, Bebchuk and Fried (2003 and 2004) have re-kindled the discussion of the impact of management power on executive pay. As pointed out by Hengartner (2006 p72), 'They [Bebchuk and Fried] argued that the more power a manager possesses, the greater the rents - benefits greater than those obtainable under true arm's-length bargaining - in the pay package'. The authors say that there are four factors that contribute to the influence of managerial power over their pay. First, the board is weak because external directors may be either loyal to the CEO or dominated by him/her. Second, many companies do not have a large outside shareholder, who would exercise some influence over CEO pay. Third, similarly, some companies have fewer large institutional shareholders than others so there is no powerful outside influence over pay negotiations. Fourth, arrangements made to guard against takeovers mean most managers are protected from the discipline otherwise imposed by the market. However, while the authors contested that the surge in executive remuneration levels in the 1990s were due to the effects of managerial power, it is important to note that such propositions have not been tested cross-sectionally.

2.3.2.2 Executive pay in the UK

The majority of executive pay research carried out over the past 50 years has been conducted in the US. Reasons for this US bias may include easier data accessibility in the US than the UK and the existence of bigger and more comprehensive US databases - for example the EDGAR database which stores all Security Exchange Commission (SEC) filings and is publicly accessible online. The US equivalent of the UK Annual Report (The SEC 10-K report) has always demanded far more detail and US companies also have to complete SEC form DEF14A which sets out line by line emolument tables for the top five earners, including share payments.

Since the DRRR (2002) came into force, there has been a gradual increase in governance and pay studies that used UK data which has been more than welcome as not all of the findings from US research are entirely relevant to UK executive pay due to the differing levels and practices. For instance, UK directors' pay has always tended to be significantly lower than their US counterparts. The use of long term incentives in the US, in particular, has been much more aggressive (see Table 8). Throughout the 1980s and 1990s, UK companies were seen to be constantly trying to catch up with their US counterparts not only in terms of pay levels but also in terms of structure. Specifically, the UK made much effort to move away from fixed to variable pay both in the form of annual bonuses and long term incentives. More recently, it appears that the largest UK companies (i.e. the FTSE 30) have got a little closer to US pay levels but those lower down the index remain some way off. As a whole, UK pay levels are still somewhat lower than those of the US. However, it is evident that catching up with the US is no longer seen as either inevitable or desirable, especially during the recent period of economic duress and amid growing hostility towards executive pay.

Table 8 Structure of CEO remuneration packages around the world

Countries	Base Salary (%)	Cash Bonus (%)	Long term Incentives (%)
United States	23	17	60
Brazil	27	41	23
Germany	39	47	14
United Kingdom	40	38	22
France	44	25	31
Ireland	44	43	13
Hong Kong	51	19	30
Netherlands	51	28	21
Belgium	52	26	22
Italy	52	29	19
Japan	71	12	17

Note: Companies with revenue between US\$1 billion and US\$3 billion

Source: Watson Wyatt Worldwide (2009)

In general, UK research so far has also yielded rather contradictory results. For example, Gregg et al (1993) examined the pay and performance relationship using a sample of 288 large UK companies over an eight year period between 1983 and 1991. A weak pay-performance link was found until 1988 after which the link broke down became insignificant.

One of the first studies to be completed in the UK that incorporated the values of executive option grants was that of Main, Bruce and Buck (1996). Although their sample was comparatively small (60 companies), they found evidence of a much stronger link between pay and performance. In support of this, Conyon et al (2000) also find a link between pay and performance. This study, however, only covers a period up to 1995, but uses two primary measures of performance: total shareholder return (defined as the return of an investor's shareholding reflected in the company's share price, assuming all dividends are reinvested) and earning per share (defined as the total profit after tax divided by the number of ordinary shares). While correlations are positive with regards to total shareholder return, no link exists between pay and earnings per share. Adding to the inconsistency, a more recent study by Buck et al (2003) shows that there has been an apparent reduction in the performance sensitivity with regard to pay, indicating the effectiveness of either the incentive mechanism or the performance targets is still not adequate.

Similarly, Pass (2003) finds evidence that a substantial proportion of post-Greenbury long term incentive plans have undemanding performance conditions and vesting schedules, rewarding for average performance rather than exceptional performance. It is also observed that even with the growth of performance conditions and the use of performance shares there has still been an increase in average total rewards to executives. However, the author concludes that it is hard to distinguish in such early studies any impact of the corporate governance reforms, as there is little information whether the companies studied had full implemented new governance recommendations into their pay strategies at the time.

Following on from these early studies, Conyon, Peck and Sadler (2005) sampled companies in 1997. These companies had the opportunity to incorporate best practice and yet still did not demonstrate the stronger links found by Main et al (1996). With little evidence in this study to link pay and performance, Conyon et al propose that the links vary with the structure of the option contract given to executives. In a further study of 510 CEOs in the fiscal year 1997/1998 Conyon (2001) finds evidence of a positive relationship between performance and the effective ownership of share-based compensation by management. While differences in compensation levels are observed and links to performance in these studies are significant, some others offer

a word of caution that these may not be due to increased performance but could result from differences in firm size, growth opportunities, company financial policy, ownership characteristics, and other governance arrangements (Konstantinos et al 2004).

Most recently, Ozkan (2007) presents results that show a significant and positive relation between CEO cash pay and performance which contrasts his previous findings in 2006. Girma et al (2007) studied the effect of the Cadbury reforms on the CEO pay for a sample of UK companies. Their results suggest that the relationship between pay and performance remained weak for their sample of firms over the period 1981-1996. Gregg et al (2012) examined the relationship between total cash compensation and performance between 1994 and 2006 among UK senior executives, and reported that there is conflicting evidence as to whether the pay-performance link has weakened or strengthened over time. Pepper and his colleagues (2012) investigated the motivational effect of long term incentive plans and concluded they are in general not efficient and are often not highly valued by executives.

All considered, the well-established mainstream conclusion is that due to the influence of numerous organisational and environmental contingencies that are outside the control of executives, the relationships between executives effort and outcomes are hugely difficult to ascertain (Rutherford et al 2007; Finkelstein and Hambrick 1996); it is therefore not entirely surprising for most research to produce results that show a weak relation between pay and individual company performance (Baker et al 1988; Brennan 1994 and 1995; Erturk et al 2008; Gomez-Mejia and Wiseman 1997; Gomez-Mejia et al 1987; Tosi and Gomez-Mejia 1989; Tosi et al 2000).

2.3.2.3 Executive pay research outcomes - why the lack of convergence?

As established earlier, many of the recent studies in the UK and US attempted to find a link between:

- Pay and performance
- A corporate governance mechanism (such as board structure) and performance
- Corporate governance and the pay-performance relationship.

In general, there is a lack of consensus among past pay-performance studies and hence, one of the key tasks in researching this subject is to discover the reasons for this problem and to gain more insight that may help in developing a new approach. A number of possible causes for this

to lack convergence in research findings have been demonstrated throughout the chapter. The ones that are most relevant to the present research are presented below:

A priori conceptions

In a recent article reviewing existing executive compensation literature, O'Neill (2007) suggests that 'a priori conceptions' about executive pay are a contributing factor to the lack of convergence in research findings. O'Neill refers to Bebchuk and Fried's (2004) illustration of 'a particular aspect of the a priori evident in many writing within an agency theory perspective' (O'Neill 2007 p694). He first points out that 'agency theory assumes "good reason to believe that the agent will not always act in the best interests of the principal" and that this potential divergence of interests may be limited "by establishing appropriate incentives" (Jensen and Meckling 1976 p308)'; O'Neill then proceeds to argue that, 'to claim executives are shirking and without an instinctive interest in maximising shareholder value (Bebchuk and Fried 2004) assumes a direct adversarial relationship where each party has distinctly different objectives and that incentives are the only available avenue of response. Not only does this perspective on executive motivation go well beyond the original expression of the principal-agent relationship, but it presents a foregone conclusion regarding executives as having an absolute and singular interest in their personal outcomes.' (p694).

Another example of this kind of a priori is sometimes observed when academics challenge the motivational effect of monetary incentives. For example, Bainbridge (2005) argues that there are relatively few studies that provide firm evidence indicating that company directors are driven by extrinsic reward; further, as demonstrated in a recent piece of research by Bender (2004), incentive schemes are becoming increasingly prevalent among UK companies even though it is often perceived by remuneration practitioners that the motivational effects of performance-based rewards are debatable.

In addition, it seems reasonable to argue that researchers may display their own biases, more specifically, the tone and presentation of executive compensation literature often corroborates a remark of Gomez-Mejia and Balkin (1992 p182): 'The way findings are posited and interpreted generally come as no surprise, depending on the writers background and known prejudice.'. Similarly, the objectivity of academics has also been questioned: 'we can expect untested assumptions, assertions and foregone conclusions when journalists, talk-back radio hosts and community leaders' rail against multi-million dollar amounts paid to CEOs. However, their views influence and shape public opinion, especially when authority is drawn from commentary and

findings of researchers perceived as credible in this area. But is this scholarly input itself always objective and constructive in developing an informed debate?' (O'Neill 2007 p695).

Practice vs theory

In their review of the literature in the area of corporate governance, Shleifer and Vishny (1997 p737) described the subject as of 'enormous practical importance'. Their observation, as suggested by Daily et al (2003 p371), '...highlights one of the attractions to conducting research in this area: its direct relationship with corporate practice'. Yet it appears that years of investigations have not offered a clear indication as to whether practice actually follows theory or indeed vice versa. The main outstanding concern seems to be the lack of agreement between what the literature recommends and the practices that companies employ. One can argue that this may be the case for incentive plans back in the 1980s and 1990s when it was, for instance, commonplace for companies to give away huge vanilla option awards to executives (i.e. options without any performance conditions attached - neither on grant or exercise). The recent governance codes provide companies detailed guidelines for pay practices and incentive designs. However, despite high levels of compliance, not much improvement has been observed. One explanation for this is that many incentive plans are too generic in design and not driving the performance specific to individual company's circumstances and needs.

In a recent paper, Gordon (2005) points out that there are cases where directors' remuneration can be shown to be based on increased shareholder value but that the sums awarded to executives often leads to outrage from the community. Gordon argues from this that there are two quite separate aspects to executive pay. One relates to the agency principle of providing incentives for maximising shareholder value. The second is connected to social concerns about wealth and power. These different aspects, according to Gordon, 'provide a system of simultaneous constraints (that) may give rise to conflicting results' (Gordon 2005 p4). Gordon concludes that maximising shareholder value is not a sufficient basis for understanding its relationship to executive pay. Researchers, he believes, should move away from the narrow concepts inherent in agency theory and pay more attention to the views of non-executive directors.

Research approach and methodology issues

It is widely observed that executive pay and corporate governance research tends to be positivist in orientation, however, as O'Neill (2007 p969) noted, '...these [traditional positivist-based] research methodologies are often argued to be problematic in two ways.' The first, pointed out by Hermalin and Weisbach (2003), is the likelihood of false correlation leading to

doubtful claims of causal relationships. They point out that the study by Shields et al (2003), reported excessive levels of executive pay that coincided with lower profitability of the company. The authors conducted an analysis, as a result of which they identified an optimum range for executive compensation of between 17 and 24 times average salary earnings. Beyond this range, they concluded, company profitability declines. But there is no examination of how and why executive behaviour can lead to these outcomes - merely the statistical correlation.

The authors then went on to make a number of recommendations to address the issue of excessive executive remuneration when government organisations are awarding government contracts. They recommended that 'pay relativities above a performance optimal range . . . are less likely to deliver a good return for shareholders or the taxpayer.' (Shields et al 2003 p46). Specifically their article notes their finding that corporate performance started to deteriorate after executive remuneration exceeded '24 times the average wage' (p6).

But quite apart from possibly misleading statistical findings, traditional research in this field has been repeatedly questioned. Simon (1957) concluded an analysis by saying that the distribution of executive salaries is not determined unambiguously by economic forces, but rather is modified by social processes that determine social norms (p35); while Kerr and Bettis (1987) say that in order to understand the process of top management compensation, we must get closer to the process (p661).

Gomez-Mejia and Balkin (1992) have given a detailed critique of the commonest failings of empirical research into executive pay-performance. They cite the unreliability of archival data sources, the effects of time-frames of long term incentives and the 'leaps of faith required to draw conclusions from archival data used as proxy variables for behavioural effects'. Zajac and Westphal (1995) refer to executive compensation as a problem that is socially defined, inherently subjective and open to manipulation (p306); and Gordon (2005) also refers to the 'social construction of the appropriate level of executive compensation' (p697).

Pettigrew (1992), noted that inferential leaps are sometimes made from variables such as the composition of the board to variables such as board performance but without any direct evidence of the linking processes in between (p171). In the same way, Forbes and Milliken (1999) note in their study that the effect of board demography on corporate performance may be complex and indirect, not the simple and direct relationship that many past studies have assumed. They suggest that 'researchers must find more precise ways of studying board demography.' (Forbes and Milliken 1999 p490). Daily et al (2003) are more critical still. They

refer to what they call 'empirical dogmatism' as a key bar to future research into corporate governance. The general picture is summed up in the words of O'Neill (2007 p697): 'Ultimately, these criticisms of the dominant methodologies employed in both research streams are not just issues of experimental design and the need for interdisciplinary approaches: at heart there are significant ontological and epistemological issues at stake.'

In spite of comments such as these from researchers who have identified the need for more process-oriented and behavioural data in both the two research streams, the views of many academics are set in place, making both debate and consensus problematical. For example, Buck et al (2003 p1719) claim that 'regression analysis, or rather the data problems of quantifying all variables, can never give a complete picture of reward innovations and should be supplemented by parallel surveys of executive perceptions of reward packages and by company case studies'. Whereas Letendre (2004) says that '...much of the literature on boardroom dynamics, and the study of board behaviour generally posits no concepts or hypotheses to be tested and has little solid research support or empirical evidence to verify the claims made.' (p101).

Views such as these suggest that the work of UK researchers such as McNulty and Pettigrew (1996), Pettigrew and McNulty (1998), Roberts (2001 and 2002), Stiles and Taylor (2002), Roberts et al (2005), Perkins and Hendry (2005) and Bender (2007) all of which were conducted from the perspective of social science, using qualitative research methodologies, does not live up to the standard required for scientific research. It is difficult not to agree with Ghoshals (2005 p82) who expressed dismay at the 'pretence of knowledge that follows from the denial of the possibility of purposeful and goal directed adaptation in behavioural theories of the firm.'

There are some signs of a move away relying solely on traditional research approaches, with their leaps of inference in the direction of research that engages with executives, remuneration committee members and other parties involved in determining executive pay. This move is reflected by the studies completed by Bender (Bender 2003, 2004, 2007 and 2008), together with some instances of researchers supplementing their traditional research designs with interview data from directors (Conyon et al 2000). Since the prevalence of qualitative studies is still relatively low, it is not a straightforward task to accurately determine the overall effectiveness of this type of research approach.

However, if the present methodological dominance is to be further developed, it seems logical to think that that engaging directly the individuals most involved in the process will be a key contribution.

The measurement of compensation and company performance

Some academics have argued that the tenuous relationship between executive pay and performance is due to the insufficient disclosure and the lack of consistent approach employed by previous studies with respect to the measurement and definition of both the performance and the pay variables and as a barrier to compensation research (Egginton et al 1993; Gregg et al 1993; Main et al 1996; Conyon 2001; Farmer 2008). As Buck et al (2003) suggest, existing research, in the USA as well as the UK has had to confront major obstacles concerning the realistic valuation of all the components of complex remuneration packages.

This point is particularly relevant to the UK since 1995, when the Greenbury Committee called for company specific performance conditions. It can be argued that, on the face of it, research seems to define executive compensation in a consistent way: broadly speaking defined as cash compensation, long term incentives and/or total compensation. But the literature does not appear to give guidance regarding precise measurement or specification for the definition of compensation or performance. In practice studies use a wide variety of definitions that may influence their results. More precise theoretical direction is needed if researchers are to acquire a firm foundation to further knowledge on this topic. This issue was highlighted recently by Devers et al (2007 p1042, cited in Farmer 2007): ‘...specifically, more theoretical guidance is required particularly surrounding the choice of performance measures, timeframes, samples, methods, and variables.’.

The measurement of the compensation variable

Cash compensation

A common measure of executive pay is cash compensation. It is often regarded as ‘the most consistently defined variable in the literature although there are still some differences across studies.’ (Farmer 2008 p8). Some cash compensation studies include three cash elements of pay - basic pay, annual bonus and allowances (Gregg et al 2005 and Conyon et al 2001); while others consider basic pay and annual bonus only (McKnight and Tomkins 2004; McKnight and Tomkins 1999; Henderson and Frederickson 1996). There is also little indication as to whether any account was taken of exceptional payments (such as an incentive bonus to join the company), which would temporarily distort the levels of pay (Bruce and Buck 1997).

A large proportion of research only measures cash compensation, leaving out any form of share-based payment (Abowd 1990; Jensen and Murphy 1990; Lambert and Larcker 1987; Mishra et al 2000; Murphy 1985; Sloan 1993; Girma et al 2007; Gregg et al 2005; Johnston 2002; Benito and Conyon 1999). In studies through to the early 1990s, the use of cash compensation as the only measure could be justified 'on the basis of data availability and the relative magnitude of the cash component in executives' total remuneration package' (Canarella and Nourayi 2008 p297). However, it must also be noted that by excluding share awards, the actual level of pay recorded is underestimated (Murphy 1985). The consequence of this is that any estimated relationship between levels of remuneration and company performance may be biased (Bruce et al 1997; Conyon et al 1995). Of particular relevance here is that Murphy (1999) concluded for the US that there is the tendency for the share incentive pay to be greater than the cash element and Conyon and Murphy (2000a) see the UK following in the same direction. So far, this has not been the case as seen in Table 8 in Section 2.3.2.2.

Share compensation

The changes that happened in the UK in the past decades in the composition of pay contracts, such as the expanding prevalence of share-based rewards and the emergence of governance codes and accounting regulations requiring companies to disclose all share incentives issued to executives and employees, have led to more focus being placed on the relevance of including long term incentive awards in executive pay studies (notable examples include: Main et al 1996; Bertrand and Mullainathan 2000; Fenn and Liang 2001; Hermalin and Wallace 2001; Core et al 2003; Cordeiro and Veliyath 2003; Buck et al 2003; Carpenter and Sanders 2004; McKnight and Tomkins 2004; Eichholtz et al 2008).

A review of these studies finds inconsistencies in the measurement of share compensation too. While several studies have reported the effects of share compensation as both a stand-alone component as well as a part of the total compensation (McKnight and Tomkins 2004; Carpenter and Sanders 2004), some others only take into account total compensation (Buck et al 2003; Jiraporn et al 2005).

To further complicate matters, the manner in which share compensation is measured have been varied, with some research focus solely on share options (Cordeiro and Veliyath 20; McKnight and Tomkins 2004); whereas others considered also the value of shareholdings (Jensen and Murphy 1990; Main and Johnston 1993).

- Executive share options

The valuation of options tends to vary considerably and, importantly, the interpretation of the research results could potentially be affected by the method and model used to value the option awards (Core et al 1999). Such variations have been noted by Farmer (2008 p9):

- Jensen and Murphy (1990) use Black-Scholes (Black and Scholes 1973) pricing methodology to value share options.
- McKnight and Tomkins (1999) champion the minimum share option valuation model.
- Cordeiro and Veliyath (2003) use a binomial valuation model.
- Carpenter and Sanders (2004) use the Exchange Commission (SEC) method
- Henderson and Frederickson (1996) value options at 25 per cent of the exercise price.

Moreover, it is evident from the literature that what is captured in the valuation of options can also vary somewhat, ranging from newly granted awards to 'change in value of all outstanding options' to 'gains from share options' (Farmer 2008 p9). For example, Jensen and Murphy (1990 p233, cited in Farmer 2008 p9) 'include: "...the value of the options awarded during the year plus the change in the value of all outstanding options during the year plus the profits (price minus exercise price) from exercising options during the year". In contrast, Henderson and Frederickson (1996) are not explicit and therefore it is not clear whether the measure includes previous grants together with current grants.'

- Performance shares

The valuation of performance share awards is equally inconsistent. For instance, some research attempts to take into account the effect of the performance targets attached to the share awards by considering the vesting probability and in turn applying discounts to the share value (Farmer 2008). An example of such approach can be found in the work of Conyon et al (2001) where a 20 per cent discount was applied to performance share awards to reflect the likely impact of the performance targets related to the vesting of the shares. Another approach is more simply to use 'the face value of the award at the time of grant' (Core et al 1999; Eichholtz et al 2008, cited in Farmer 2008 p9).

Total compensation

Total compensation is typically defined as cash plus share-based incentive rewards. The way cash compensation is measured tends not to vary greatly so that the share incentives component has the main influence on total compensation (Farmer 2008). Another point to note is that measures of total compensation can also be dependent on the data used. For instance,

where the data are taken from company annual reports and accounts, one can adjust and customise the data (such as by annualising, ageing or pro-rating the data) to suit the needs of the research.

On the other hand, where the data are acquired from a financial database, they are then reliant on the calculated field in that database (Farmer 2008). Jensen and Murphy (1990), for example, used total compensation data from Forbes compensation surveys but commented that the data were not consistently measured from one year to the next and that share options were not actually included. As a result, Jensen and Murphy (1990) relied on US proxy statements, which was publicly available, to obtain share option data. More recently, as noted by Farmer (2008), Hallock (1997 p333) also based their study on Forbes data and pointed out that - as total compensation includes exercised options - this may not accurately reflect current compensation, because exercised options represent a personal investment rather than present compensation.

The measurement of company performance

The statistical relationship between directors' remuneration and company performance has been reported to be relatively sensitive to the particular measurement of performance used (Baiman and Verrecchia 1995). However, it must be stressed that performance itself has many dimensions such as shareholder returns, growth, employment, sustainability and quality of earnings, risk parameters, etc., and may be difficult to summarise in a single measure (Dechow and Schrand 2004).

The appropriateness of different measures may also differ across companies (e.g. according to sector or life-cycle factors) and corporate governance mechanisms (e.g. internal controls may reduce risks, but also reduce profits). Over the years, academics have explored the pay-performance link using both accounting-based measures (e.g. return on assets and return on capital employed) and market-based measures (e.g. share price and total shareholder return). Yet the literature appears not to have reached any conclusion as to which type of performance measure is more appropriate for executive pay research purposes.

As explained by Talmor and Wallace (2001 p4), 'from the shareholders' perspective, return is generated from stock price changes and is not defined by accounting terms... accounting numbers are ex-post measures and as such, can only relate to attained performance'. In contrast, according to Nourayi and Mintz (2008 p526) market-based performance, being an ex-ante measure of value, 'reflects actions by managers as they induce future economic profits.'

That being said, share prices are considered to be a rather 'noisy signal' in that 'they are frequently subject to significant market-wide fluctuations that mirror the determinants of the business cycle and the conditions of fiscal and monetary policy, and hence do not exclusively reflect the performance of executives.'. On the other hand, accounting-based measures do not suffer from as many of these problems. In fact, they 'shield executives from much of the noise and accountability associated with stock market fluctuations (Bertrand and Mullainathan 2000)'.

Moreover, in terms of empirical evidence, a number of studies have managed to establish a strong correlation between executive pay and accounting measures of return, including Lewellen and Huntsman (1970), Sloan (1993) and Carpenter and Sanders (2004). At the same time, there is also literature that reports a positive association between market-based performance measures and directors' remuneration (Rich and Larson 1984; Coughlan and Schmidt 1985; Murphy 1985 and Conyon et al 2000). Baber et al (1996), however, find that such positive relationships are mainly confined to the non-cash pay elements. More recently, Boschen et al (2003) indicates that companies tend to focus less on using accounting-based performance and rely increasingly on market-based measures. From the above, one can see how important it is for researchers to recognise that each of these measures has merits as well as drawbacks of its own (Baiman and Verrecchia 1995).

Adding to the debate, some academics even question the use of company performance as an indicator of interest alignment effectiveness, given that company performance is evidently not only a function of executive decisions but also factors outside executives control (Gomez-Mejia and Wiseman 1997; Devers et al 2007). Notwithstanding, arguments employing the agency framework still strongly support the conclusion that shareholder wealth maximisation (e.g. market-based performance) should be the definitive criterion for compensation research.

2.3.3 Summary of literature evidence

In general, research findings within existing literature have proved conflicting and inconclusive (Canarella and Nourayi 2008; O'Neill 2007; Rutherford et al 2007; Bebchuk and Fried 2004), indicating that while the idea that executive pay is a potential solution to agency is well defined, the actual causality of incentive pay and interests alignment and shareholder value creation remains largely uncertain (Finkelstein and Mooney 2003; Pettigrew 1992). Nonetheless, the lack of convergence in research outcomes may, in effect, have encouraged academics to redirect

research attention towards a richer set of social and political explanations (O'Neill 2007; Daily et al 2003; Conyon and Peck 1998).

Researchers have, for instance, examined social comparison processes and winner-takes-all, intra-executive tournaments (Lazear and Rosen 1981; Conyon and Peck 1998b; Crystal 1992; O'Reilly et al 1988); and executive pay has been studied in relation to organisational strategy (Balkin and Gomez-Mejia 1990), tenure (Hill and Phan 1991), the structure of internal incentives (Lambert et al 1993), the dimensions of board structure and control (Conyon 1997; Conyon and Peck 1998a), information disclosure (Conyon and Sadler 2001; Conyon et al 2002) and managerial power (Bebchuk and Fried 2005).

Research has been broadening, corporate governance itself has become more comprehensive, yet it appears that two aspects of governance have remained unchanged in the UK:

- Corporate governance is as important as ever - one continues to believe that the positive outcome of good corporate governance is, ultimately, a strengthened economy and a robust governance framework is in effect a tool for socio-economic development (Sapovadia 2003). And maximising shareholder value is still what all companies continue to strive to achieve - although it has proved to be a relative difficult task to accomplish. Carver (2007 p1030) summarised this point clearly:

'Corporate governance exists for one reason and one reason alone: to ensure that shareholders' values, as informed by knowledgeable agency, are transformed into company performance. To the extent a board fails in this, no matter how many other useful things it accomplishes, it has failed. To the extent it succeeds in this, no matter that it accomplishes nothing else, it has succeeded.'

- The principles of good governance have stayed the same too: transparency, accountability, responsibility and fairness, underpinned by disclosure. Besides, the objectives of governance measures have also remained similar apart from becoming tighter and more stringent. To-reiterate, of the many objectives of governance, the present study focuses on two as set out in Table 9.

Table 9 Key objectives of corporate governance

Governance objectives and mechanisms	UK Corporate Governance Code (2010) references
<ul style="list-style-type: none"> To improve the monitoring function of the board through the introduction of mechanisms that alter the structure of boards and the role of non-executives (to be discussed in Chapter 6). 	<ul style="list-style-type: none"> Page 9, Section A: Leadership, Section A1: The Role of the Board. Page 12, Section B: Effectiveness.
<ul style="list-style-type: none"> To align the interests of executives and shareholders (mitigate agency effects and costs) via the effective use of pay structure and incentives (to be discussed in Chapter 7). 	<ul style="list-style-type: none"> Page 22, Section D: Remuneration.

Source: this author

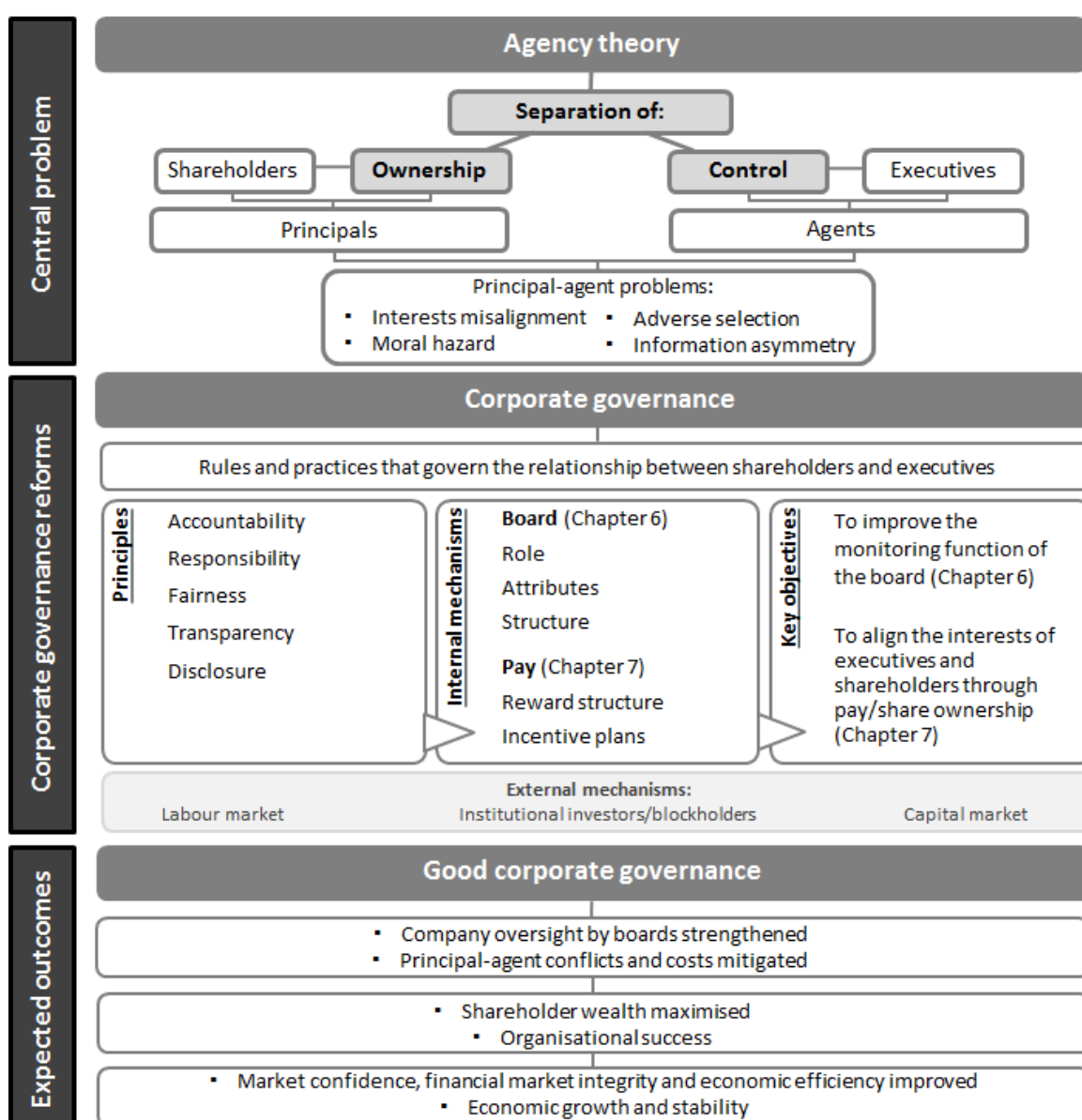
2.4 Concluding remarks

The high profile corporate collapses in the 1990s exposed the pervasive weakness in oversight at many companies, thereby spawning the movement to raise governance standards. Governance systems across the world have since been undergoing a period of serious transition, yet, when additional accounting scandals and executive compensation abuses came to light in the early 2000s, the reform movement gained further momentum. As investor trust has weakened yet more, following this spate of corporate malfeasance, focus has increased on raising the accountability of executives. In recent years there have clearly been mounting regulatory and institutional pressures on businesses to strengthen the link between shareholder and executive interests, not least to effectively align company success with the financial rewards of the leadership team. In the UK, for instance, board of directors are now not only given the primary oversight responsibility for approving and reviewing the company's pay decisions, but also expected to communicate and demonstrate clearly how executive incentive plans are designed to drive company performance and maximise shareholder value.

After years of intense debate over the subject, it is now by and large universally accepted that executive pay should be used to align interests and reward superior performance; in the meantime, companies have also become more proactive in rethinking how they create value for shareholders and how they translate value creation into understandable and measurable behaviours. However, evidence tends to show that practice does not always seem to match up to the promise. In fact, much academic literature indicates that incentive vehicles designed with the aim of improving the link between executive pay and performance and shareholder value are not able to attain their full desired effects.

The present study attempts to examine the question of why there is so little alignment in theory and practice based on the discussion framework set forth in Figure 13. Research into executive pay has mainly been carried out in two parallel streams; the first examining the correlation between pay and performance using quantitative research methods, and the second studying executive pay as one of the key mechanisms of corporate governance reform using qualitative research methods. The approach this study takes is to unite the two and synthesise a quantitative examination of pay and performance, and a qualitative evaluation of pay as a governance mechanism, so that studying pay in the context of corporate governance will yield a holistic understanding of the complex relationships between the individual topics.

Figure 13 Discussion framework



Source: this author

3 Hypotheses and methodology

In this chapter, the research parameters, including the characteristics of the data and variable definitions, will first be described. The hypotheses and the rationales will then be discussed. It is important to point out that as part of the exploratory approach to the data adopted by this study (refer to Section 1.4.2 and Figure 12), the correlation exercises, i.e. the testing of the hypotheses set out in Section 3.2, will be performed (see Chapter 4) prior to the background to discussion being explained in Chapter 5. Lastly, a formal expression of the models and a brief explanation of the statistical processes employed to test the hypotheses will be presented.

3.1 Sample and data

The quantitative analyses of this study are based on a panel data set of the 100 largest publicly listed companies in the UK from the FTSE 100 Index for the period 2004/05 to 2008/09. The main objective is to empirically examine the link between executive pay, company size and performance, as well as the factors that may affect the pay-performance relationship. The data used in this study have been obtained from the following sources:

- Remuneration data: Thomson Reuters and companies' annual reports and accounts
- Financial data: Bloomberg and Datastream
- Governance and board specifics: BoardEx.

3.1.1 Company coverage

The current study has analysed the constituents of the FTSE 100 index. However, it was decided that investment trusts should be left out of the analysis, as they often have organisational features that are quite different from other companies in the index (for example, executives very rarely sit on the board). This market capitalisation weighted index is considered to be appropriate for the following reasons:

- All constituents are traded on the London Stock Exchange and are governed by the same set of listing rules providing consistency for data analysis.
- It is made up of the 100 largest UK-domiciled blue chip companies, which pass screening for size and liquidity.
- It represents approximately 81% of the UK's market capitalisation (as at July 2012).
- It also accounts for around 8.2% of the world's equity market capitalisation (based on the FTSE All-World Index as at 31 July 2012).
- Historical data (from January 1984) for the index are available electronically.
- Pay practices among FTSE 100 constituents are, in many aspects, relatively similar, but are distinctive from those found in smaller FTSE 250 companies.

3.1.2 Study period 2004/05 to 2008/09

Recent changes in disclosure requirements have made it possible for the current study to assess the pay-performance relationship over a period of five years. In the past problems associated with availability of data, coupled with difficulties associated with the valuation of long term incentives, have led to a tendency for academics to rely on single cross-section data. It is only since the introduction of the Directors' Remuneration Report Regulations in 2002 that corporate governance and executive pay researchers have started using more comprehensive panels of longitudinal remuneration and financial data in their empirical work (Conyon and Sadler 2000; Buck et al 2003).

The period under study has been one of both economic fluctuations, and also changes in corporate governance measures. The implementation of these changes has been a gradual process of formalisation and improvement rather than an outright single transformation for most companies; hence, being able to exploit time series variation to examine executive pay should be a major step forward. That being said, it is understood that using five years' worth of data may be limiting as natural market fluctuations and economic conditions might not be fully reflected in a relatively short period of time. A longer study period of perhaps 10 years would make observing trends easier but pay data disclosed before 2004 were still not entirely consistent, with gaps in many remuneration aspects. Another point to note is that this study has not been especially concerned with controlling for firm specific fixed effects over time. Rather, as Murphy (1999) proposes and the results of Balkin et al (2000) indicate, the variance explained by widely used variables may fluctuate somewhat across time (Hengartner 2006). Furthermore, estimators that are based on panel data tend to be more precise in general (Hengartner 2006). The panel data approach further helps ameliorating the problem of omitted variables associated with a cross-sectional sample (Murphy 1985).

3.1.3 Incumbent coverage

Positions that are captured in this study include the highest paid director (either the Chief Executive or the full-time Executive Chairman), Finance Directors and Other Directors (that is, other main board Executive Directors, excluding Chief Executives, Executive Chairmen and Finance Directors). It was feasible to analyse these position because all UK companies are required, by the DRRR (2002), to detail all forms of remuneration for each of their main board directors in the annual report and accounts. CEO pay tends to be different from other directors, therefore it is informative to examine the different roles side by side in order to draw comparisons. Since the FTSE 100 sample is of a manageable size, the data have been re-organised in a way that allowed for detailed analysis. Specifically, analyses have been

performed for not only the CEOs as with much of the prior research but for four selected incumbent groups, namely:

- CEOs (capturing both the Chief Executives and Executive Chairmen)
- Finance Directors
- All directors
- All directors excluding CEOs.

To ensure more accurate and consistent comparisons, all the analyses were carried out using a 'constant sample'. In other words, only incumbents who had been in the same role for two consecutive years were included in each dataset. In effect, new hires and recently promoted individuals' data were omitted to prevent skewing the results.

3.1.4 Pay variables

As discussed in Chapter 2, the results of previous studies seem to indicate that the relationship between executive pay and company performance tends to vary considerably depending on how the pay variable is measured. In order to advance on the understanding of the relationship between the various components of pay and performance, it is clearly desirable to consider the full array of pay elements that make up the remuneration package of senior executives. By breaking down the pay variable into its various components for separate analysis, this study has also been able to examine how executives perceive and respond to different pay arrangements, especially incentive rewards.

In the UK, a typical executive pay package is usually comprised of base salary, annual bonus, share options and/or performance shares and/or deferred matching shares, other benefits in kind and pension provisions. These terms are defined as follows in this study: broadly, a 'base salary' is a guaranteed monthly amount paid to the executive. A 'bonus' is typically an annual incentive opportunity that focuses on more short-term business performance targets. Bonus payout is variable depending on whether or the extent of which the pre-determined performance targets set by the remuneration committee have been met at the end of the year or the performance period. Annual awarded bonus may sometimes be required to be deferred to a later date and this arrangement is called a 'deferred bonus'. It is becoming increasingly common for companies to require further performance targets to be tested in return for matching share awards (Farmer 2008).

It is also common for executive to participate in one or more long term incentive plans in the forms of share option grants and/or awards of restricted shares under the rules of a

performance share plan (often called ‘performance shares’ or ‘LTIPs’). These equity-based rewards are subject to share price fluctuations and thus the potential payouts are variable and even ‘at risk of decreasing in value’ (Farmer 2008 p6). In addition, practically all long term incentive plans are designed with a performance vesting schedule whereby ‘a maximum award vests for performance beyond an upper threshold, while no award vests for performance below a lower threshold. The award vests at different levels of performance between the lower and upper threshold’ (Farmer 2008 p6). Again, the grant size and the performance targets attached to any long term plans are determined by the remuneration committee, often with the assistance from external consultants.

All remuneration data used in this study, including the values of options performance shares and deferred shares, have been provided by Thomson Reuters using an ‘expected value’ approach similar to that used by Hewitt New Bridge Street (2007 p6). The expected value of long term incentives is based on the actual annual awards of options and performance shares made as a percentage of base salary and valued using Binomial Model. A ‘market expected value discount’ is also applied – for options 20%, for free share awards with performance conditions (i.e. performance shares) 55% and for free share awards without performance conditions (i.e. vanilla deferred matching shares) 90%.

Furthermore, executives are typically rewarded with benefits in kind - examples include gym membership, a chauffeur, or a housing allowance. Benefits in kind do not, in most cases, represent a significant proportion of a directors’ pay package. One possible exception is that of executives who may be given a housing allowance to assist international relocation (Farmer 2008). Additionally, companies will often provide their executives with a retirement plan as well. Neither benefits in kind or pensions have been included in the current study. This does not imply that they are unimportant. In fact, it is quite the opposite. Pensions form quite a major part of any executive package and have undergone significant changes. Generous final salary defined benefit plans used to be the norm until several years ago but are disappearing fast - they are simply not financially viable or sustainable and have left most companies with a huge pension deficit. There has thus been a shift to defined contribution arrangements. Due to the complex nature of pension arrangements and the actuarial valuations involved and all the recent changes, this element of remuneration has not been taken into account in this study.

3.1.5 Company performance measurement

Much of the previous research has considered one or two performance measures - but a wide range of measures have been used, from shareholders’ returns (Murphy 1985, Main et al 1996),

to return on equity (Ezzamel and Watson 1997), to accounting profit (Lewellen and Huntsman 1970; Deckop 1988). In the current study, however, six measures of performance have been used:

1) Earnings per Share (EPS) growth

The first measure is One-year Earnings per Share (EPS) Growth. This is a measure of basic EPS before extraordinary items and is derived from deducting EPS for the previous period from EPS for the current period, expressed as a percentage. EPS growth is commonly used as a guide to help investors identify shares that are increasing or decreasing in value. The EPS data are derived from Datastream.

2) Earnings Before Interest, Taxes, Depreciation And Amortisation (EBITDA) Margin

EBITDA Margin is a measurement of a company's operating profitability. It is equal to earnings before interest, tax, depreciation and amortization (EBITDA) divided by total revenue. Because EBITDA excludes depreciation and amortization, EBITDA margin can provide investors with a clearer view of a company's core profitability. The EBITDA figures are derived from Bloomberg.

Definition: EBITDA Margin is calculated as trailing 12 month EBITDA divided by trailing 12 month sales, multiplied by 100.

3) Sales/Revenue growth

Revenue Growth is the per cent increase (or decrease) in a company's revenue between two or more equivalent fiscal periods. Revenue Growth is used to measure how fast a company's business is expanding. The figures give analysts, investors and participants an idea of how much a company's sales are increasing over time. Sales data are derived from Datastream.

Definition: Sales/Revenue year change (growth, in percentage) is calculated using the following formula:

$$[(\text{Net Sales/Revenue for the current period} - 1) / (\text{Net Sales/Revenue for the last period})] * 100$$

4) Net Income growth

This figure represents the annualized rate of net-income growth over the trailing one-year period for stocks. Net-income growth gives a clear picture of the rate at which companies have

grown their profits. All things being equal, stocks with higher net-income growth rates are generally more desirable than those with slower net-income growth rates. The Net Income data are derived from Bloomberg.

Definition: Net Income year change (growth in percentage) is calculated using the following formula:

$$[(\text{Net Income for the current period} - 1) / (\text{Net Income for the last period})] * 100$$

5) Total Shareholder Return

Total Shareholder Return (TSR) is a concept used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with stock markets, but the relative position reflects the market perception of overall performance relative to a reference group. The TSR data are derived from Datastream.

Definition: Total Shareholder Return (TSR) represents a theoretical growth in value of a shareholding over a specified period, assuming that dividends are re-invested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date. It is calculated using the following formula:

$$\text{TSR} = (\text{Priceend} - \text{Pricebegin} + \text{Dividends}) / \text{Pricebegin}$$

Where Pricebegin = share price at beginning of period, Priceend = share price at end of period and Dividends = dividends paid.

6) Return on Equity

Return on Equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The ROE data are derived from Bloomberg.

Definition: Return On Equity (ROE) in percentage is calculated as trailing 12 month Net Income (Losses) minus trailing 12 month Cash Preferred Dividends, divided by Average of Total Common Equity, multiplied by 100.

3.2 Development of hypotheses

UK corporate governance has changed significantly since reforms began some 20 years ago - with many initiatives attempting to strengthen governance, including the formation of different Committees to investigate and offer recommendations. Some dealt with governance in general (e.g. Cadbury 1992 and Hampel 1998), whereas others targeted more specific governance issues such as remuneration (Greenbury 1995), the role and effectiveness of non-executive directors (Higgs 2003) and governance in Banks and other financial institutions (Walker's Review 2009).

The core themes of governance, however, appear to have remained by and large unchanged since Cadbury. Governance codes have been reviewed, revised and amended numerous times but overall, reforms have mainly sought to raise the independence of executive pay determination, the transparency of the process via disclosure and the voice of shareholders in the outcome. Yet, the primary objective of these measures is often considered as an attempt to improve board accountability and to make executive remuneration changes reflect company performance, thus aligning manager-shareholder interests.

How effective have two decades of such corporate governance reforms been? This apparently straightforward question has proved difficult to answer as already demonstrated in previous chapters puzzling both academics and policy makers alike. This part of the research has tried to address one aspect of the grander overall question, examining UK directors' remuneration in relation to company size and performance. The analysis is organised into three sections:

Part 1: Relationship between company size and executive pay

Part 2: Relationship between executive pay and company performance

Part 3: Factors affecting the pay-performance relationship

3.2.1 Part 1: Relationship between company size and executive pay

Executive compensation has been a widely studied subject. There have been high hopes (particularly among agency theorists, shareholders and governance bodies) that it should be predominantly driven by company performance. But to date, results remain largely inconclusive, the causal relationship between pay and performance remains unclear. What is

clear though is that company size has been consistently found to be the key determinant of directors' pay.

Earlier studies by Lewellen and Huntsman (1970), Ciscel and Carroll (1980), Healy (1985), Baker et al (1988), Finkelstein and Hambrick (1996), Rosen (1992), Conyon and Leech (1994), Yermack (1995), and Ezzamel and Watson (1997), to name a few, all found a strong correlation between company size and directors' pay. The more recent research such as Bruce and Buck (2005), Girma et al (2007), Ozkan (2007), Ferri and Maber 2008, Guay (2010) and Gregg et al (2012) continued to yield the same finding. Much of the literature suggested that executive pay tends to increase with company size because of 'the higher level of skills and managerial talent required by the higher degree of complexity and diversity of activities within [larger] organisations.' (Canarella and Nourayi 2008 p295).

Previous work has typically used total sales as the measure for company size (Conyon and Leech 1994; Ezzamel and Watson 1997; Core et al 1999). For the banking sector, it is common to use total assets as a proxy for size (Anderson and Bizjak 2003; Gregg et al 2012). Market capitalisation is an alternative measure of company size used by many too (Bonet and Conyon 2005; Conyon and He 2004; Armstrong et al 2010), including the current study. It is appropriate because the FTSE index is ranked using market capitalisation. Market capitalisation data were obtained from Bloomberg and below is the definition:

Historical Market Capitalisation is calculated as: (Closing Price as of fiscal period end date) multiplied by (Shares outstanding at that period end date). Period end date is the most recent annual for which full fundamental data have been collected.

While this part of the analysis can be considered as a 'validity check' to test the robustness of the data sets and the methods used, there are aspects of it that are designed to be more insightful than previous studies. For instance, many researchers have used total cash or total compensation to measure executive pay. Recent improvement in pay disclosure allows other elements of the directors' remuneration package to be analysed. Therefore, this part of the study explores five different pay variables against company size (hypotheses H1a, H1b, H1c, H1d and H1e), but more than that, it compares the strength of some of the correlations (hypotheses H1f, H1g and H1h). Overall, it is still expected that executive pay will increase with company size.

Hypotheses concerning the relationship between company size and executive pay:

H1a: Base Salary is positively related to Market Capitalisation

H1b: Total Cash is positively related to Market Capitalisation

H1c: Total Compensation is positively related to Market Capitalisation

H1d: Base Salary Increase is positively related to Market Capitalisation

H1e: Variable Pay is positively correlated with Market Capitalisation

H1f: The correlation between Market Capitalisation and Variable Pay is different from that between Market Capitalisation and Base Salary

H1g: The correlation between Market Capitalisation and Total Cash is different from that between Market Capitalisation and Base Salary

H1h: The correlation between Market Capitalisation and Total Compensation is different from that between Market Capitalisation and Total Cash

3.2.2 Part 2: Relationship between executive pay and company performance

The second part of the analysis has focused on links between directors' remuneration and various measures of corporate performance. Taking an agency stance, executive compensation is considered as an effective means of addressing the 'separation of ownership and control' problem. Simply put, it is argued that executives' interests and behaviours can be aligned with the needs of shareholders via compensation design which in turn should result in improved company performance.

Although numerous attempts have been made to examine the relationship between indicators of company performance and directors' remuneration, no firm conclusions have been reached overall. The position was aptly summarised by Barkema and Gomez-Mejia (1998) who stated: 'In short, after at least six decades of research ... the failure to identify a robust relationship between top management compensation and firm performance has led scholars into a blind alley' (p135). Data availability problems in the past mean that prior work tended to rely on evaluating cash compensation using mainly single cross-section data. However, UK company annual reports now contain sufficient information about executive pay packages to analyse total compensation and each pay element separately, hence this study does precisely that (except benefits and pensions).

It is important to point out that there has been a lot of criticism directed at studies that relied on evaluating total cash compensation. It is often argued these analyses ignore interesting differences in the extent to which the long term share-based components of compensation are affected by company performance, and that the weak statistical results are probably due to the omission of long term incentives in these studies (Ozkan 2007). After all, long term incentive plans, by definition, are designed to have a long term influence and to align executive pay and performance. That being said, it is observed that recent UK studies that consider the total remuneration package of senior executives (Buck et al 2003, Pepper et al 2012) do not seem to have produced results that show a stronger link between pay and performance.

The present study has included the long term element of pay in this part of the analyses with one of the reasons being the prevalence of such type of incentive vehicle among UK directors. Every FTSE 100 company operates one or more long term incentive plans, all of which are performance contingent. Besides, long term incentives represent a significant portion of FTSE 100 executive director's total reward (around 35% in 2008), according to recent surveys by KPMG (2008) and Hewett New Bridge Street (2008). In greater detail, in 2008 around 55%-60% of an Executive Director's remuneration package is linked to variable pay (compared to only 45% in 2003). Of the variable pay element, around 60% is linked to long term performance (compared to 50% in 2003).

In terms of pay components, six different ones are examined, namely base salary, annual bonus, total cash, long term incentives, variable pay and total compensation. With the exception of base salary (Hypothesis H2a) which is a fixed element of pay, it is expected that the other five pay variables to be positively associated to company performance (Hypotheses H2b, H2c, H2d and H2e). It is also predicted that total compensation will be more strongly related to performance than total cash, as the former includes long term incentives (Hypothesis H2g).

As mentioned earlier, the implementation of corporate governance regulation has been a gradual process. Thus it is important for research to exploit time series variation to capture any observable changes. It is predicted that executive pay has become more sensitive to company performance over the research period (Hypotheses H2h and H2i).

Hypotheses concerning the relationship between executive pay and company performance:

H2a: Base Salary Increase is negatively related to Company Performance

H2b: Annual Actual Bonus Increase is positively related to Company Performance

H2c: Total Cash Increase is positively related to Company Performance

H2d: Long term Incentive Increase is positively related to Company Performance

H2e: Variable Pay Increase is positively related to Company Performance

H2f: Total Compensation Increase is positively related to Company Performance

H2g: The correlation between Total Compensation and Company Performance is stronger than the correlation between Total Cash and Company Performance

H2h: The strength of the relation between Total Cash and Company Performance has increased over the period 2004-2009

H2i: The strength of the relation between Total Compensation and Company Performance has increased over the period 2004-2009

3.2.3 Part 3: Factors affecting the pay-performance relationship

Although the body of executive compensation has been growing, there seems to be a paucity of detailed studies researching into the factors that determine the pay-performance link. This part of the study therefore sets out to investigate the effect of some of the potential factors on the relationship between executive pay (measured as (i) total cash compensation and (ii) total compensation) and company performance (using the same six measures of performance outlined in Section 3.1). Again, the analysis is carried out for each of the four incumbent groups described earlier, over five years (2004/05-2008/09).

The thirteen factors examined are listed below under four headings:

1) Compensation levels and structure:

- Absolute base salary (H3a i and ii)
- Total compensation (H3b i and ii)
- Variable pay as a percentage of total compensation (H3c i and ii)
- Long term incentives as a percentage of total compensation (H3d i and ii)
- Number of long term incentive plans in operation (H3j i and ii)
- Maximum annual bonus grant size (H3k i and ii).

It is expected to see companies that offer their executives a higher level of base salary and total compensation, and a larger proportion of variable pay and long term incentives to be associated to a stronger relationship between pay and performance. Further, it is also predicted that the greater the bonus potential the more effort an executive will exert which in turn should lead to an increase in performance. However, there is evidence to suggest that the number of incentive plans and their complexity may affect the pay-performance link. A 'portfolio' approach (i.e. the use of more than one plan) with many performance targets attached to each plan may make the pay structure overly complex and send out conflicting messages about the company needs to executives (Department of Business Innovation and Skills 2012).

Hypotheses concerning factors affecting the pay-performance relationship - compensation levels and structure:

H3a(i): The higher the level of Base Salary, the stronger the relationship between Total Cash and Company Performance

H3a(ii): The higher the level of Base Salary, the stronger the relationship between Total Compensation and Company Performance

H3b(i): The higher the level of Total Compensation, the stronger the relationship between Total Cash and Company Performance.

H3b(ii): The higher the level of Total Compensation, the stronger the relationship between Total Compensation and Company Performance.

H3c(i): The higher the proportion of actual Variable Pay, the stronger the relationship between Total Cash and Company Performance

H3c(ii): The higher the proportion of actual Variable Pay, the stronger the relationship between Total Compensation and Company Performance

H3d(i): The higher the proportion of LTIs, the stronger the relationship between Total Cash and Company Performance

H3d(ii): The higher the proportion of LTIs, the stronger the relationship between Total Compensation and Company Performance

H3j(i): The greater the number of LTI plans, the weaker the relationship between Total Cash and Company Performance

H3j(ii): The greater the number of LTI plans, the weaker the relationship between Total Compensation and Company Performance

H3k(i): The higher the maximum award level of Annual Bonus, the stronger the relationship between Total Cash and Company Performance

H3k(ii): The higher the maximum award level of Annual Bonus, the stronger the relationship between Total Compensation and Company Performance

2) Company scale:

- Company size (H3e i and ii)
- Industry (H3m i and ii).

It is reported in a number of recent surveys that larger companies tend to provide a greater proportion of variable pay; and the greater the proportion of variable pay, the stronger the pay-performance link is likely to be (KPMG 2008). Therefore, consistent with hypotheses H3b, H3c and H3k, larger companies' pay should more related to performance. Due to differing business and production environments, and that executive pay practices do vary among companies in different sectors (Yermack 1996; Murphy 2003), it is expected that the pay and performance relationship will be somewhat different across industries.

Hypotheses concerning factors affecting the pay-performance relationship - company scale:

H3e(i): The larger the company (in terms of Market Capitalisation), the stronger the relationship between Total Cash and Company Performance

H3e(ii): The larger the company (in terms of Market Capitalisation), the stronger the relationship between Total Compensation and Company Performance

H3m(i): The relationship between Total Cash and Company Performance varies across industries/sectors

H3m(ii): The relationship between Total Compensation and Company Performance varies across industries/sectors

3) Governance measures:

- Board size (H3f i and ii)
- Proportion of non-executive directors (H3g i and ii)
- Remuneration committee size (H3h i and ii).

As suggested by Yermack (1996), smaller boards are predicted to be more effective than larger boards because the latter is prone to having 'coordination costs and free rider problems'. A number of more recent studies presented results that support this argument (Ozkan 2007; Guest 2010; Renneboog and Trojanowski 2010). Thus, it is predicted that larger board size will disconnect the pay-performance link. However, the greater proportion of non-executives and the size of the remuneration committee are expected to have a positive impact on the link.

Hypotheses concerning factors affecting the pay-performance relationship - governance measures:

H3f(i): The larger the board (number of executive and non-executive directors), the weaker the relationship between Total Cash and Company Performance

H3f(ii): The larger the board (number of executive and non-executive directors), the weaker the relationship between Total Compensation and Company Performance

H3g(i): The higher the proportion of non-executives, the stronger the relationship between Total Cash and Company Performance

H3g(ii): The higher the proportion of non-executives, the stronger the relationship between Total Compensation and Company Performance

H3h(i): The larger the size of the Remuneration Committee, the stronger the relationship between Total Cash and Company Performance

H3h(ii): The larger the size of the Remuneration Committee, the stronger the relationship between Total Compensation and Company Performance.

4) Incumbent characteristics:

- Tenure (H3i i and ii)
- Position (H3i i and ii).

According to Lippert and Porter (1997), when a large portion of annual compensation is delivered as options and shares, individual executive's accumulated equity in the company increases as time passes. And as the executive's share holdings build, his interests should become more aligned with those of other shareholders and the probability that he might sacrifice the interests of shareholders for self-aggrandisement decreases (Gong 2010). This appears to suggest that the tenure of senior executives should have a positive impact on the pay-performance relationship. Hill and Phan (1991) and Murphy (1986) both argued otherwise

but since the use of share options and performance shares has become increasingly prominent over the past decade (KPMG 2008), it is expected that there is a positive relationship between executive pay and company performance as tenure increases.

It is reported by KPMG (2008) that CEO's pay packages tend to be distinctive from other executives and have a greater proportion of variable elements than those of other directors. The objective of this arrangement is to improve the line of sight of the CEO, who after all is seen to have the most influence on business performance. For this reason, among others, prior research often focused solely on CEO pay. Since this study captures all board executives, hypotheses H3I(i) and H3I(ii) aim to test whether CEO pay is indeed more performance related compared to other executives given the higher proportion of incentive pay.

Hypotheses concerning factors affecting the pay-performance relationship - incumbent characteristics:

H3i(i): The longer the tenure, the stronger the relationship between Total Cash and Company Performance

H3i(ii): The longer the tenure, the stronger the relationship between Total Compensation and Company Performance

H3I(i): CEO Total Cash is more strongly linked to Company Performance than that of executive directors

H3I(ii): CEO Total Compensation is more strongly linked to Company Performance than that of executive directors.

3.3 Model specifications

The hypotheses described in Section 3.2 are tested using three different models and all the calculations are done using MINITAB:

<u>Hypothesis</u>	<u>Estimating model</u>	<u>Hypothesis rationale*</u>
H1a Base Salary is positively related to Market Capitalisation	1	B
H1b: Total Cash is positively related to Market Capitalisation	1	B
H1c: Total Compensation is positively related to Market Capitalisation	1	B
H1d: Base Salary Increase is positively related to Market Capitalisation	1	C
H1e: Variable Pay is positively correlated with Market Capitalisation	1	B
H1f: The correlation between Market Capitalisation and Variable Pay is different from that between Market Capitalisation and Base Salary	2	A

<u>Hypothesis</u>	<u>Estimating model</u>	<u>Hypothesis rationale*</u>
H1g: The correlation between Market Capitalisation and Total Cash is different from that between Market Capitalisation and Base Salary	2	A
H1h: The correlation between Market Capitalisation and Total Compensation is different from that between Market Capitalisation and Total Cash	2	A
H2a: Base Salary Increase is negatively related to Company Performance	1	C/D
H2b: Annual Actual Bonus Increase is positively related to Company Performance	1	D
H2c: Total Cash Increase is positively related to Company Performance	1	D
H2d: Long term Incentive Increase is positively related to Company Performance	1	D
H2e: Variable Pay Increase is positively related to Company Performance	1	D
H2f: Total Compensation Increase is positively related to Company Performance	1	D
H2g: The correlation between Total Compensation and Company Performance is stronger than the correlation between Total Cash and Company Performance	2	C/D
H2h: The strength of the relation between Total Cash and Company Performance has increased over the period 2004-2009	see H2c	D
H2i: The strength of the relation between Total Compensation and Company Performance has increased over the period 2004-2009	see H2f	D
H3a(i): The higher the level of Base Salary, the stronger the relationship between Total Cash and Company Performance	3	C
H3a(ii): The higher the level of Base Salary, the stronger the relationship between Total Compensation and Company Performance	3	C
H3b(i): The higher the level of Total Compensation, the stronger the relationship between Total Cash and Company Performance.	3	C/D
H3b(ii): The higher the level of Total Compensation, the stronger the relationship between Total Compensation and Company Performance.	3	C/D
H3c(i): The higher the proportion of actual Variable Pay, the stronger the relationship between Total Cash and Company Performance	3	A
H3c(ii): The higher the proportion of actual Variable Pay, the stronger the relationship between Total Compensation and Company Performance	3	A
H3d(i): The higher the proportion of LTIs, the stronger the relationship between Total Cash and Company Performance	3	A
H3d(ii): The higher the proportion of LTIs, the stronger the relationship between Total Compensation and Company Performance	3	A
H3e(i): The larger the company (in terms of Market Capitalisation), the stronger the relationship between Total Cash and Company Performance	3	C
H3e(ii): The larger the company (in terms of Market Capitalisation), the stronger the relationship between Total Compensation and Company Performance	3	C
H3f(i): The larger the board (number of executive and non-executive directors), the weaker the relationship between Total Cash and Company Performance	3	B
H3f(ii): The larger the board (number of executive and non-executive directors), the weaker the relationship between Total Compensation and Company Performance	3	B
H3g(i): The higher the proportion of non-executives, the stronger the relationship between Total Cash and Company Performance	3	B
H3g(ii): The higher the proportion of non-executives, the stronger the relationship between Total Compensation and Company Performance	3	B
H3h(i): The larger the size of the Remuneration Committee, the stronger the relationship between Total Cash and Company Performance	3	B
H3h(ii): The larger the size of the Remuneration Committee, the stronger the relationship between Total Compensation and Company Performance	3	B
H3i(i): The longer the tenure, the stronger the relationship between Total Cash and Company Performance	3	B
H3i(ii): The longer the tenure, the stronger the relationship between Total Compensation and Company Performance	3	B

<u>Hypothesis</u>	<u>Estimating model</u>	<u>Hypothesis rationale*</u>
H3j(i): The greater the number of LTI plans, the weaker the relationship between Total Cash and Company Performance	3	A/C
H3j(ii): The greater the number of LTI plans, the weaker the relationship between Total Compensation and Company Performance	3	A/C
H3k(i): The higher the maximum award level of Annual Bonus, the stronger the relationship between Total Cash and Company Performance	3	A/C
H3k(ii): The higher the maximum award level of Annual Bonus, the stronger the relationship between Total Compensation and Company Performance	3	A/C
H3l(i): CEO Total Cash is more strongly linked to Company Performance than that of executive directors	1	A
H3l(ii): CEO Total Compensation is more strongly linked to Company Performance than that of executive directors	1	A
H3m(i): The relationship between Total Cash and Company Performance varies across industries/sectors	1	B
H3m(ii): The relationship between Total Compensation and Company Performance varies across industries/sectors	1	B

*Keys for "Hypothesis Rationale":

A – Common views of prior literature B – Synthesis of past studies' results

C – Popular perception D – Popular expectation from governance reforms

3.3.1 Model 1

Model 1 is a simple regression model that will provide an indication of the strength and direction of a linear relationship between two variables (Moore and McCabe 2005). An example is presented below:

Example: H2b Annual Bonus Increase is positively related to Company Performance (TSR)

Symbols

Notation	Variable
<i>AB</i>	Annual Bonus
<i>TSR</i>	Total Shareholder Return

Let $\rho_{AB\ TSR}$ be the population correlation coefficient for Annual Bonus and Total Shareholder Return. The hypothesis can then be rewritten as:

$$H_0 : \rho_{AB\ TSR} = 0 \quad \text{vs} \quad H_a : \rho_{AB\ TSR} > 0$$

The sample data can be grouped in a number of ways, the two main ones are as follows:

Sample A - covers one single position (i.e. CEO or Finance Director) over any given year and the data include:

$$(AB_1, TSR_1), (AB_2, TSR_2), \dots, (AB_n, TSR_n)$$

Sample B - covers all board executives (i.e. CEO, Finance Director and other executive directors) by averaging the Annual Bonus ($AVEAB$) figure over any given year. The data for this sample are:

$$(AVEAB_1, TSR_1), (AVEAB_2, TSR_2), \dots, (AVEAB_n, TSR_n)$$

In both cases (Sample A and Sample B), n is the total number of companies in the FTSE 100 index minus any investment trusts and the sample correlation coefficient (also known as the Pearson's correlation coefficient) for Annual Bonus and Total Shareholder Return is:

$$r_{AB\ TSR} = \frac{\sum_{i=1}^n (AB_i - \overline{AB})(TSR_i - \overline{TSR})}{\sqrt{\sum_{i=1}^n (AB_i - \overline{AB})^2} \sqrt{\sum_{i=1}^n (TSR_i - \overline{TSR})^2}}$$

where $\overline{TSR} = \frac{\sum_{i=1}^n TSR_i}{n}$

and $\overline{AB} = \frac{\sum_{i=1}^n AB_i}{n}$

The observed level of significance (i.e. the p-value) of the above test, as suggested by Peck et al (2005 ch13), is calculated in such a way

$$p - value = P(t_{n-2} > t^*)$$

where t_{n-2} is the Student t distribution with $(n - 2)$ degrees of freedom and

$$t^* = r_{AB\ TSR} \sqrt{\frac{n-2}{1-r_{AB\ TSR}^2}}$$

The resulting p-value will determine whether the data provide evidence to support the hypothesis (i.e. Annual Bonus and Total Shareholder Return are positively related to each other). If the p-value is less than 0.05 (i.e. with a 5% level of significance), the correlation is

considered to be significant. However, if the p-value is greater than 0.05, the result is not significant at 5% level and hence the correlation is insignificant. It is important to note that for hypotheses H1a, H1b, H1c, H1d and H1e, before the testing was carried out using Model 1, the data have first been organised by ranking - the methodology of which is described below:

Example: H1a Base Salary is positively related to Market Capitalisation

Notation: (S_i;C_i) represents the Base Salary and Market Capitalisation of the i company. In other words, the data can be arranged as (S₁;C₁); (S₂;C₂); : : : ; (S_n;C_n).

Since the values of Market Capitalisation vary tremendously among FTSE 100 companies, it seems more appropriate to consider the relationship between the rank of Base Salary ('Base Salary Rank') and the rank of Market Capitalisation ('Market Capitalisation Rank') instead of using absolute levels. The hypothesis therefore predicts that the lower the rank of Base Salary, the lower the rank of Market Capitalisation and vice versa.

Let s₁; : : : ; s_n be the rank of S₁; : : : ; S_n and similarly c₁; : : : ; c_n be the rank of C₁; : : : ; C_n.

The example shown below illustrates how the ranking is compiled:

S	C	s	c
10	100	4	3.5
5	90	2.5	2
3	100	1	3.5
5	80	2.5	1

The data for S include: (10; 5; 3; 5) where 3 is smallest and so it is ranked 1. The second smallest S is 5 and so is the third, in such a case, they are both ranked 2.5 which is the average of ranks 2 and 3. Lastly, 10 is the largest of all the numbers and so its ranking is 4. Based on this method, s is therefore (4; 2.5; 2.5; 1). Similarly, C is (100; 90; 100; 80) and in effect c consists of (3.5; 2; 3.5; 1).

Once the rankings are determined, the Spearman's rank correlation coefficient is applied:

$$r^S = \frac{(s_1 - \bar{s})(c_1 - \bar{c}) + \dots + (s_n - \bar{s})(c_n - \bar{c})}{\sqrt{(s_1 - \bar{s})^2 + \dots + (s_n - \bar{s})^2} \sqrt{(c_1 - \bar{c})^2 + \dots + (c_n - \bar{c})^2}}$$

The observed level of significance (i.e. the p-value) of the above test, as suggested by Peck et al (2005 chapter 13), will be used to determine whether the data provide evidence to support the hypothesis. If the p-value is less than 0.05 (i.e. with a 5% level of significance), the correlation is considered to be significant. However, if the p-value is greater than 0.05, the result is not significant at 5% level and hence the correlation is insignificant.

3.3.2 Model 2

Model 2 is designed to compare two sets of correlation.

Example: H1g -The correlation between Market Capitalisation and Total Cash is stronger than the correlation between Market Capitalisation and Base Salary

Symbols

Notation	Variable
<i>BS</i>	Base Salary
<i>TC</i>	Total Cash
<i>MC</i>	Market Capitalisation

To translate this hypothesis into notation, let $\rho_{TC MC}$ be the correlation between Total Cash and Market Capitalisation. And let $\rho_{BS MC}$ be the correlation between Base Salary and Market Capitalisation. The hypothesis can be written as:

$$H_0 : \rho_{TC MC} = \rho_{BS MC} \quad vs \quad H_a : \rho_{TC MC} > \rho_{BS MC}$$

The sample data used here can again be grouped in a number of ways, the two main ones are:

Sample A - covers one single position (i.e. CEO or Finance Director) over any given year and the data include:

$$(TC_1, BS_1, MC_1), (TC_2, BS_2, MC_2), \dots, (TC_n, BS_n, MC_n)$$

Sample B - covers all main board positions (i.e. CEO, Finance Director and other executive directors) by averaging the Total Cash (*AVE_{TC}*) and the Base Salary (*AVE_{BS}*) figures over any given year. The data for this sample are:

$$(AVE_{TC_1}, AVE_{BS_1}, MC_1), (AVE_{TC_2}, AVE_{BS_2}, MC_2), \dots, (AVE_{TC_n}, AVE_{BS_n}, MC_n)$$

For both samples, n is the total number of companies in the FTSE 100 index minus any investment trusts and the sample correlation coefficient for Total Cash and Market Capitalisation is:

$$r_{TC MC} = \frac{\sum_{i=1}^n (TC_i - \overline{TC})(MC_i - \overline{MC})}{\sqrt{\sum_{i=1}^n (TC_i - \overline{TC})^2} \sqrt{\sum_{i=1}^n (MC_i - \overline{MC})^2}}$$

where
$$\overline{TC} = \frac{\sum_{i=1}^n TC_i}{n}$$

and
$$\overline{MC} = \frac{\sum_{i=1}^n MC_i}{n}$$

Similarly, the sample correlation coefficient for Base Salary and Market Capitalisation and the sample correlation coefficient for Base Salary and Total Cash are:

$$r_{BS MC} = \frac{\sum_{i=1}^n (BS_i - \overline{BS})(MC_i - \overline{MC})}{\sqrt{\sum_{i=1}^n (BS_i - \overline{BS})^2} \sqrt{\sum_{i=1}^n (MC_i - \overline{MC})^2}}$$

$$r_{BS TC} = \frac{\sum_{i=1}^n (BS_i - \overline{BS})(TC_i - \overline{TC})}{\sqrt{\sum_{i=1}^n (BS_i - \overline{BS})^2} \sqrt{\sum_{i=1}^n (TC_i - \overline{TC})^2}}$$

where
$$\overline{BS} = \frac{\sum_{i=1}^n BS_i}{n}$$

It appears that standard statistics texts, in general, do not cover this type of hypothesis testing problems. Nevertheless, Olkin and Finn (1990 and 1995) present a methodology for testing the following scenario:

$$H_0 : \rho_{TC MC} = \rho_{BS MC} \quad \text{vs} \quad H_a : \rho_{TC MC} \neq \rho_{BS MC}$$

While Olkin and Finn's example is a two-sided hypothesis test problem, H1g is a one-sided problem:

$$H_0 : \rho_{TC MC} = \rho_{BS MC} \quad \text{vs} \quad H_a : \rho_{TC MC} > \rho_{BS MC}$$

So under hypothesis H1g, H_a will only be 'significant' if $\rho_{TC MC}$ is significantly bigger than $\rho_{BS MC}$.

By modifying the result shown by Olkin and Finn (1990 and 1995), the observed level of significance (i.e. the p-value) of the test can be calculated as follow:

$$p - value = P(Z > z^*)$$

where Z is the standard Normal distribution and z^* is:

$$z^* = \frac{r_{TC MC} - r_{BS MC}}{\sqrt{\text{var}(r_{TC MC}) + \text{var}(r_{BS MC}) - 2\text{cov}(r_{TC MC}, r_{BS MC})}}$$

with

$$\text{var}(r_{TC MC}) = \frac{(1 - r_{TC MC}^2)^2}{n}$$

$$\text{var}(r_{BS MC}) = \frac{(1 - r_{BS MC}^2)^2}{n}$$

$$\text{cov}(r_{TC MC}, r_{BS MC}) = \frac{0.5A + B - C}{n}$$

and

$$A = r_{TC MC} r_{BS MC} (r_{TC MC}^2 + r_{BS MC}^2 + r_{MC BS}^2 + 1)$$

$$B = r_{TC BS} + r_{TC MC} r_{MC BS}$$

$$C = r_{TC MC} r_{TC BS} r_{TC MC} + r_{MC TC} r_{MC BS} + r_{BS TC} r_{BS MC} r_{BS MC} + r_{MC TC} r_{MC BS}$$

3.3.3 Model 3

Model 3 is for testing the conjectures stated above in Part 3 under Section 3.2.3 (except for hypotheses H3l (i) and (ii) and H3m(i) and (ii) which are tested using Model 1).

Example: H3a: The higher the level of Base Salary, the stronger the relationship between Total Cash and Company Performance (TSR)

Notation

Notation	Meaning
Y	Base Salary
W	Total Cash
X	TSR
Y^*	'standardised' Base Salary
W^*	'standardised' Total Cash
X^*	'standardised' TSR

where 'standardised' = (variable - average) / (standard deviation).

Model:

$$Y^* = \beta_1 W^* + \beta_2 X^* + \beta_3 W^* X^* + \epsilon$$

This is a multiple regression model with interaction on standardised variables.

In particular, β_3 indicates the correlation between Total Cash and TSR for a given Base Salary.

The output given is an estimation of β_3 (standard error and the corresponding p-value).

The resulted p-value is for testing if a trend (an increasing or a decreasing one) exists. In other words, it is to find out whether or not the relationship between Total Cash and TSR becomes stronger as Base Salary increases.

Output for the above example:

Conjecture: the higher the level of base salary, the stronger the relationship between Total Cash and TSR (for 2008/09; position: CEO).

Estimate of $\beta_3 = 0.3979$

Test statistic = 1.41 (positive trend)

p-value = 0.08200 (significant at 0.1 level)

According to the above, the data do not refute the conjecture (i.e. the hypothesis is supported by the data)

4 Research results and key findings

This chapter begins with an overview of the descriptive properties of executive remuneration among companies in the FTSE 100 index. Next, the results of the tests of hypotheses will be presented (refer to Appendix for details), before turning to examining the selected key findings and observations derived from both the quantitative analyses and the literature review.

4.1 Descriptive results

As previously described in Chapter 3, based on a sample of the 100 largest companies in the UK over the period 2004-2009, this study tested 43 hypotheses - grouped under three parts:

- Part 1: Relationship between company size and executive pay
- Part 2: Relationship between executive pay and company performance
- Part 3: Factors affecting the pay-performance (note: total cash and total compensation are the two pay variables included in the analysis)

Due to the large number of analyses performed, this section will focus on the results that are most significant and noteworthy. Detailed statistical tables for all the tests conducted can, however, be found in Appendix C.

4.1.1 Part 1: Relationship between company size and executive pay

The hypotheses tested under this part of the analysis and the variables are set out below:

Hypotheses:

- H1a Base Salary is positively related to Market Capitalisation
- H1b: Total Cash is positively related to Market Capitalisation
- H1c: Total Compensation is positively related to Market Capitalisation
- H1d: Base Salary Increase is positively related to Market Capitalisation
- H1e: Variable Pay is positively correlated with Market Capitalisation
- H1f: The correlation between Market Capitalisation and Variable Pay is different from that between Market Capitalisation and Base Salary.
- H1g: The correlation between Market Capitalisation and Total Cash is different from that between Market Capitalisation and Base Salary

- H1h: The correlation between Market Capitalisation and Total Compensation is different from that between Market Capitalisation and Total Cash.

FTSE 100 incumbent groups:

- CEOs
- Finance directors
- All directors
- All directors excluding CEOs.

Size measure:

- Market Capitalisation (data source: Bloomberg)
Definition: Historical Market Capitalisation is calculated as: (Closing Price as of fiscal period end date) * (Shares outstanding at that period end date). Period end date is the most recent annual for which full fundamental data have been collected

4.1.1.1 Results for part 1

Pay and Size (H1a, H1b, H1c and H1e - Appendix C pages 285-286)

Company Size is found to be strongly and positively related to Base Pay, Total Cash, Total Compensation and Variable Pay across the four incumbent groups. Previous research has consistently found that executive pay (base pay in particular) is primarily driven by company size. Similar results are observed for FTSE 100 companies. Further, it is interesting to see that the r^S values are fairly constant (especially for the All Directors excluding CEOs incumbent group under hypothesis H1a - see Appendix C, page 285), indicating that the relationships have barely changed over the past five years.

Base Salary Increase and Size (H1d - Appendix C page 286)

Unlike the above, the relationship between Size and Base Pay Increase is not as clear cut, with only three significant positive results. There are even several negative correlations (Appendix C, page 286), something that is not found in hypotheses H1a, H1b, H1c and H1e (Appendix C, pages 285-286). The results suggest that annual changes in Base Pay for executives are not determined by the Market Capitalisations of companies but perhaps to economic factors, e.g. inflation. Consistent findings are seen across all incumbent groups and throughout the study period.

Individual Pay components and Size (H1f, H1g and H1h - Appendix C pages 287-289)

All the test stat numbers for H1f are negative (Appendix C, page 287), indicating that Size is more strongly related to Base Pay than it is to Variable Pay. In other words, the correlations observed in H1a are stronger than those presented in H1e, although all relationships are significant and positive.

Again, while both H1a and H1b show strong positive results, H1g (Appendix C, page 288) suggests that the former relationship (Size-Base Pay) appears to be stronger than the latter (Size-Total Cash). All but one of the test stat of H1h (Appendix C, page 289) is negative which means Total Cash is more strongly related to Size than Total Compensation (i.e. H1b produces stronger positive results than H1c). However, the findings are not as significant as H1g and even least so than H1f, suggesting that Size is more strongly related to Base Pay than it is to Variable Pay, Total Cash and Total Compensation. Moreover, a difference in the strength of correlation with Size has been observed among the various pay elements. Though all positive, its link with Base Pay is the strongest, followed by Total Cash then Total Compensation and least so with Variable Pay.

4.1.2 Part 2: Relationship between executive pay and company performance

The nine hypotheses and the variables included in this part of the study are as follows:

Hypotheses:

- H2a: Base Salary Increase is negatively related to Company Performance
- H2b: Annual Actual Bonus Increase is positively related to Company Performance
- H2c: Total Cash Increase is positively related to Company Performance
- H2d: Long term Incentive Increase is positively related to Company Performance
- H2e: Variable Pay Increase is positively related to Company Performance
- H2f: Total Compensation Increase is positively related to Company Performance
- H2g: The correlation between Total Compensation and Company Performance is stronger than the correlation between Total Cash and Company Performance
- H2h: The strength of the relation between Total Cash and Company Performance has increased over the period 2004-2009
- H2i: The strength of the relation between Total Compensation and Company Performance has increased over the period 2004-2009.

FTSE 100 incumbent groups:

- CEOs
- Finance directors
- All directors
- All directors excluding CEOs.

Measures of company performance:

- One-year EPS Growth (data source: Datastream)
Definition: Earnings per Share Growth is based on Basic EPS before Extraordinary items and is calculated using the following formula:
$$\frac{[(\text{EPS for the current period} - \text{EPS for the previous period}) / (\text{EPS for the previous period})] * 100}$$
- EBITDA Margin (data source: Bloomberg)
Definition: EBITDA Margin is calculated as trailing twelve month EBITDA divided by trailing twelve month sales, times 100.
- One-year Sales/Revenue Growth (data source: Datastream)
Definition: Sales/Revenue year change (growth, in percentage) is calculated using the following formula:
$$\frac{[(\text{Net Sales/Revenue for the current period} - 1) / (\text{Net Sales/Revenue for the last period})] * 100}$$
- One-year Net Income Growth (data source: Bloomberg)
Definition: Net income year change (growth, in percentage) is calculated using the following formula:
$$\frac{[(\text{Net Income for the current period} - 1) / (\text{Net Income for the last period})] * 100}$$
- Total Shareholder Return (data source: Datastream)
Definition: TSR represents a theoretical growth in value of a shareholding over a specified period, assuming that dividends are re-invested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date. It is calculated using the following formula with Pricebegin = share price at beginning of period, Priceend = share price at end of period and Dividends = dividends paid:
$$\text{TSR} = (\text{Priceend} - \text{Pricebegin} + \text{Dividends}) / \text{Pricebegin}$$

- Return on Equity (data source: Bloomberg)
Definition: Return on equity (ROE), in percentage, is calculated as trailing 12 month Net Income (Losses) minus trailing 12 month Cash Preferred Dividends, divided by Average of Total Common Equity, times 100.

4.1.2.1 Results for part 2

Base Pay and Performance (H2a - Appendix C page 291)

Considering all incumbent groups, Sales is the performance measure that has the highest number of significant positive, relationships with Base Salary Increase over the past five years, followed by Net Income and ROE. It is important to point out that practically all of the significant observations for Sales and Net Income are found in the earlier years (2004/05 and 2005/06). More recently, there appears to be a shift to ROE, with three of the four (CEO being the exception) incumbent groups demonstrating a significant positive link between Base Pay Increase and ROE in 2008/09.

As expected, Base Pay Increase does not seem to be strongly related to Performance (or to Size as seen in H1d). No clear trend of associations has been observed other than those just-mentioned. However, it is worth noting that in 2008/09, Finance Director Base Pay Increase is significantly linked to three performance measures, namely: Sales, TSR and ROE.

Compared to the other incumbent groups, CEO has the fewest number of significant positive Base Pay Increase-Performance links. One explanation could be that CEO Pay Increase is more likely to be driven on external market and economic factors.

Annual bonus and Performance (H2b - Appendix C page 292)

Annual Bonus is positively correlated to TSR for all positions every year between 2006 and 2009 (2005 too for Finance Director and All Directors minus CEOs). However, it is not linked to other performance measures. The only other significant positive result is found in 2007/08 between Sales and the All Director minus CEOs group. While not related to any performance measures in 2004/05, bonus is consistently positively linked to TSR in the past three to four years. It is well documented that LTIs have the potential to drive shareholder value but not so much annual bonus, making the results here rather interesting.

Total Cash and Performance (H2c - Appendix C page 293)

A strong positive correlation is found in 2008/09 between Total Cash and TSR for all incumbent groups. In particular, this positive link is observed for four consecutive years for the All Directors minus CEOs group, and three years for All Directors. For year 2008/09, CEO Total Cash is positively linked to four performance measures: Sales, Net Income, TSR and ROE. Similarly, Finance Director Total Cash is related to four measures: EPS, Sales, TSR and ROE. All Directors minus CEOs Total Cash is found to be linked to Net Income, TSR and ROE. Again, most of the more significant results are produced by the TSR measure.

It is interesting to note that Total Cash of the top two positions (CEO and Finance Director) is linked to TSR in only two years, which is fewer than the other two incumbent groups. The Finance Director group and the All Directors minus CEOs group have the most number of significant positive correlations between Total Cash and Performance (eight each). Year 2008/09 has by the far the highest number of positive Total Cash-Performance links: 2004/05: three; 2005/06: six; 2006/07: three; 2007/08: two; 2008/09: twelve).

Long term Incentives (LTIs) and Performance (H2d - Appendix C page 294)

Only the CEO and the Finance Director groups are included in H2d as the LTIs data for the other two groups are not complete. Also note that 2004/05 has insufficient data for the analysis to be carried out. Finance Director LTIs is significantly positively related to TSR for three consecutive years: 2005/06, 2006/07 and 2007/08. Whereas CEO LTIs and TSR produces significant correlations for two years in 2005/06 and 2007/08. The best year for Finance Director appears to be 2005/06 with three significant relationships with EPS, Sales and TSR.

As for CEO, it is 2006/07 where LTIs is linked to EBITDA, Net Income and TSR. There are no positive link between LTIs and Performance at all in 2008/09. Of all the pay elements, LTIs is often expected to be most related to company performance because LTI plans used by FTSE 100 companies all supposedly have 'appropriate' and 'challenging' targets attached. Yet, the results seem to suggest otherwise.

For many companies, TSR is used as the performance target within their LTI plans (performance share plan in particular), therefore, it is not surprising to find it positively related to CEO and Finance Director LTIs in more cases than other measures. However, unlike Annual Bonus and Total Cash, CEO LTIs and Finance Director LTIs are not related to TSR (or any measure) in 2008/09. This is particularly interesting given 2008/09 is the year where Total Cash is

significantly linked to the most number of measures, with all four incumbent groups demonstrate a positive link with TSR.

Variable Pay (i.e. Annual Bonus plus LTIs) and Performance (H2e - Appendix C page 295)

As with H2b, H2c and H2d, TSR is the measure that demonstrates the most number of significant positive results, in this case with Variable Pay. There are nine of such observations, three of which are found in the All Directors minus CEOs group. In more detail, Variable Pay is related to TSR for the All Directors minus CEOs group in 2008/09, and across all incumbent groups in both 2004/2005 and 2007/08.

However, no significant result is found at all between 2005 and 2007. Another point worth noting is that in 2008/09, Variable Pay (for all positions) is significantly linked to ROE (rather than TSR).

Is Variable Pay performance related at all? Not on the face of it but for the last two years, it is actually related to either TSR or ROE for all positions. Same can be said for 2004/05. There is for some reason a gap where there is no significant performance link in 2005/06 and 2006/07. It is also interesting to note that Variable Pay does not appear to be as related to performance as Total Cash (see Table 10).

Total Compensation and Performance (H2f - Appendix C page 296)

TSR is once again the Performance measure that appears to be most related to Pay - Total Compensation in this instance, although not for 2008/09. CEO Total Compensation is linked to TSR in three of the last five years, and two of the three for Finance Directors and All Directors, and only one for the All Directors minus CEOs group. This is different from the other hypotheses in that the CEO group has more significant relationships with TSR than the other incumbent groups.

The significance of Total Cash (H2a, H2b, H2c, H2d, H2e and H2f - Appendix C pages 291-296)

It can be seen from Table 10 that over the study period, Total Cash is the pay element with the greatest overall number of significant positive links to company performance. For the All Directors minus CEOs group, Total Cash is significantly related to performance in eight cases, followed by Variable Pay (seven cases). Base Pay Increase and Annual Bonus have five significant positive links each, while Total Compensation only has four. When only the data for the CEO and Finance Director groups are taken into account (to include LTIs), Total Cash still has most significant results (13 cases).

The Pay and Performance relationship by Incumbent Group (H2a, H2b, H2c, H2e and H2f - Appendix C pages 291-296)

Looking more closely at all the Pay-Performance links for the four incumbent groups (leaving out H2d - only sufficient LTIs data for CEO and Finance Directors), it is observed that the CEO group has the least number of significant results with only 18. All Directors minus CEOs has the most with 30, followed by Finance Director then All Directors with 27 and 23 respectively (see Table 10). Even when focusing on just the pay variables that have one or more performance-related components (i.e. taking out Base Pay Increase), similar results are observed with the CEO group being the least performance related in terms of the number of significant positive pay-performance correlations (15 cases).

The All Directors minus CEOs group has 23 of such relationships, while the Finance Director group has 20 and the All Directors group has 17. There are two-thirds more positive pay-performance correlations found in the All Directors minus CEOs group than the CEO group which is rather interesting and arguably surprising. CEO pay is often under more scrutiny and thus expected to be more closely linked to performance than other executives.

Similar findings are found even after taking Base Pay Increase, a variable that the CEO group is least related to Performance, out of the equation. Comparing the CEO group with the Finance Director group, the latter is consistently observed to have a higher number of significant positive Pay-Performance links than the former, irrespective of whether LTIs and Base Salary Increase is taken into consideration.

Table 10 Total number of significant positive correlations between 2004 and 2009 by pay element and incumbent group

	CEO	Finance Directors	All Directors	All - CEO	Total all groups	CEO + FD	n
H2a Base Increase	3	7	6	5	21	10	30
H2b Annual Bonus	3	4	3	5	15	7	30
H2c Total Cash	5	8	5	8	26	13	30
H2d LTIs	4	5				9	24
H2e Variable Pay	3	5	3	7	18	8	30
H2f Total Comp	4	3	6	4	17	7	30
All Pay elements:	22	32					
Excluding H2a:	19	25					
Excluding H2d:	18	27	23	29			
Excluding H2a & H2d:	15	20	17	24			
Difference in %	FD vs CEO	All - CEO vs CEO					
All Pay elements:	45.45%						
Excluding H2a:	31.58%						
Excluding H2d:	50.00%	61.11%					
Excluding H2a & H2d:	33.33%	60.00%					

Source: this author

Comparing the Pay and Performance relationships between CEOs and Finance Directors (H2a, H2b, H2c, H2d, H2e and H2f - Appendix C pages 291-296)

Turning the focus to only the CEO and the Finance Director groups (including H2e - LTIs), the former demonstrates a significant Pay-Performance correlation in 22 cases whereas there are 32 cases for the latter group (with a difference of 45.45%). Even when Base Pay Increase is excluded, the figures become 19 for the CEO group and 25 for the Finance Director group. As seen in Table 10, these differences in percentage terms are relatively significant, ranging from 31.58% (all pay elements except Base Pay Increase) to 50% (all elements except LTIs).

The Pay and Performance relationship by Performance Measure (H2a, H2b, H2c, H2d, H2e and H2f - Appendix C pages 291-296)

Comparing the six different performance measures over the study period and across the four incumbent groups, TSR has by far the highest number of significant positive relationships with executive pay in general (all elements except LTIs) with 45 cases. Sales is next down the list with 16 cases which only amounts to about a third of that of TSR. Net Income and ROE both have 14 cases while EBITDA has five and EPS only three, making it the least related to executive pay.

Table 11(i) shows that the figures for TSR are consistently high for each of the incumbent groups. Looking at just the CEO and Finance Director groups but all pay variables (i.e. including H2d - LTIs), the findings are fairly similar (Table 11(ii)). The inclusion of LTIs results only makes TSR appear even more related to Pay than the other performance measures. CEO Pay appears to be consistently less related to performance (all measures) than Finance and other directors. Broadly, apart from TSR, all other performance measures appear to have little to do with executive pay.

Table 11 Total number of significant positive correlations between 2004 and 2009 by incumbent group and performance measure

Table 11(i): H2a, H2b, H2c, H2e and H2f (excluding H2d - LTIs)

	EPS	EBITDA	Sales	Net Inc	TSR	ROE	n
CEO	0	0	2	2	11	3	25
FD	2	1	5	3	12	4	25
All	0	2	4	4	10	3	25
All-CEO	1	2	5	5	12	4	25
Total	3	5	16	14	45	14	100

Table 11(i): Expressed in percentage terms:

	EPS	EBITDA	Sales	Net Inc	TSR	ROE
CEO	0.00%	0.00%	8.00%	8.00%	44.00%	12.00%
FD	8.00%	4.00%	20.00%	12.00%	48.00%	16.00%
All	0.00%	8.00%	16.00%	16.00%	40.00%	12.00%
All-CEO	4.00%	8.00%	20.00%	20.00%	48.00%	16.00%

Table 11(ii): All Pay elements

	EPS	EBITDA	Sales	Net Inc	TSR	ROE	Total	n
CEO	1	0	3	2	13	3	22	29
FD	2	2	5	4	15	4	32	29
Total	3	2	8	6	28	7		58

Table 11(ii): Expressed in percentage terms:

	EPS	EBITDA	Sales	Net Inc	TSR	ROE
CEO	3.45%	0.00%	10.34%	6.90%	44.83%	10.34%
FD	6.90%	6.90%	17.24%	13.79%	51.72%	13.79%

Source: this author

The significance of TSR as a Performance Measure (H2a, H2b, H2c, H2d, H2e and H2f - Appendix C pages 291-296)

As noted earlier, TSR has emerged as the Performance measure that is most often correlated to Pay. Delving deeper into results for TSR (also see Table 12(i)), it is found that over the past five years across the four incumbent groups, the Pay element (excluding LTIs) that has shown the most number of positive relationship with TSR is Annual Bonus (14/20 cases). There are 27% more positive correlations to TSR for Annual Bonus than Total Cash.

Focusing only on the results for the CEO and the Finance Director groups and including LTIs, Annual Bonus comes out top with seven out of eight cases, then closely followed by LTIs with five cases (Table 12(ii)). Contrary to the results, it was expected that there would be more positive correlations between TSR-LTIs than TSR-Annual Bonus which is rather interesting and will be discussed further later in the Section 4.2 as well as in Chapters 6 and 7.

Table 12 Total shareholder return (TSR) analysis**Table 12(i): TSR analysis - all incumbent groups excluding long term incentives**

	Base Increase	Annual Bonus	Total Cash	Variable Pay	Total Comp	Total	n
2004/05	0	0	1	4	1	6	20
2005/06	1	2	2	0	3	8	
2006/07	0	4	2	0	0	6	
2007/08	1	4	2	4	4	15	
2008/09	1	4	4	1	0	10	
Total	3	14	11	9	8	45	
Total %	15.00%	70.00%	55.00%	45.00%	40.00%		

Table 12(ii): TSR Analysis - CEO and Finance Directors including long term incentives (2004/05 excluded due to insufficient data)

	Base Increase	Annual Bonus	Total Cash	Variable Pay	Total Comp	LTIs	n
2005/06	1	1	1	1	2	2	8
2006/07	0	2	0	0	0	1	
2007/08	1	2	0	2	2	2	
2008/09	1	2	2	0	0	0	
Total	3	7	3	3	4	5	
Total %	37.50%	87.50%	37.50%	37.50%	50.00%	62.50%	

Source: this author

The Pay and Performance relationship by Year (H2a, H2b, H2c, H2e, H2f, H2h and H2i - Appendix C pages 291-296)

Examining the results year by year, with 28 cases, 2008/09 has the greatest number of positive Pay-Performance correlations across the four incumbent groups (excluding LTIs but including all performance measures). 2004/05, 2005/06 and 2007/08 have similar number of cases, ranging from 19 to 23.

However, it must be emphasised that there is a clear dip in 2006/07 down to only eight cases, possibly due to the economic down turn related to the banking crisis. Table 13 shows that while 2008/09 has the most positive relationships, 28 cases may not be enough to say that there is a significant improvement in the pay-performance link. Moreover, there does not seem to be any trends or patterns emerging from the results which is in line with a recently study by Gregg et al (2012) who confirmed that executive compensation is more sensitive to company size than company performance within UK companies. They also provided evidence suggesting that there is no significant trend over time for the pay-size sensitivity between the period 1994/95 and 2005/06 which is consistent with what the present study has found 2004/05 to 2008/09.

Table 13 Total number of significant positive pay-performance correlations by year and incumbent group

	CEO	FD	All Directors		Total	n
2004/05	4	4	4	7	19	30
2005/06	3	8	6	6	23	30
2006/07	1	1	3	3	8	30
2007/08	3	5	6	5	19	30
2008/09	7	9	4	8	28	30
Total	18	27	23	29		150

Source: this author

4.1.3 Part 3: Factors affecting the pay-performance relationship

The third part of the study examined the factors that may affect the pay and performance link, using the same four Incumbent Groups and six Performance Measures described above under Part 2.

A list of the hypotheses is shown below, followed by a summary of the list of factors:

- H3a(i) and H3a(ii): The higher the level of Base Salary, the stronger the relationship between Total Cash / Total Compensation and Performance.

- H3b(i) and H3b(ii): The higher the level of Total Compensation, the stronger the relationship between Total Cash / Total Compensation and Performance.
- H3c(i) and H3c(ii): The higher the proportion of actual Variable Pay, the stronger the relationship between Total Cash / Total Compensation and Performance.
- H3d(i) and H3d(ii): The higher the proportion of LTIs, the stronger the relationship between Total Cash / Total Compensation and Performance.
- H3e(i) and H3e(ii): The larger the company (in terms of Market Capitalisation), the stronger the relationship between Total Cash / Total Compensation and Performance
- H3f(i) and H3f(ii): The larger the board (number of executive and non-executive directors), the weaker the relationship between Total Cash / Total Compensation and Performance.
- H3g(i) and H3g(ii): The higher the proportion of non-executives, the stronger the relationship between Total Cash / Total Compensation and Performance.
- H3h(i) and H3h(ii): The larger the size of the Remuneration Committee, the stronger the relationship between Total Cash / Total Compensation and Performance.
- H3i(i) and H3i(ii): The longer the tenure, the stronger the relationship between Total Cash / Total Compensation and Performance.
- H3j(i) and H3j(ii): The greater the number of LTI plans, the weaker the relationship between Total Cash / Total Compensation and Performance.
- H3k(i) and H3k(ii): The higher the maximum award level of Annual Bonus, the stronger the relationship between Total Cash / Total Compensation and Performance.
- H3l(i) and H3l(ii): CEO Total Cash / Total Compensation is more strongly linked to Performance than that of executive directors
- H3m(i) and H3m(ii): The relationship between Total Cash / Total Compensation and Performance varies across industries/sectors.

Factors affecting the relationship between Pay and Company Performance:

- Absolute Base Salary level
- Total Compensation level
- Variable Pay as a percentage of Total Compensation
- LTIs as a percentage of Total Compensation
- Company Size
- Board Size (total number of executive and non-executive directors)
- Non-executive Directive / Executive Director ratio
- Remuneration Committee Size
- Tenure

- Positions (comparing CEOs to other executive directors)
- Number of LTI plans in operation
- Maximum Annual Bonus grant size
- Industry.

4.1.3.1 Results for part 3

The effects of Base Salary levels on the Pay-Performance relationship (H3a(i) and H3a(ii) - Appendix C pages 305-306)

The results for H3a(i) do not seem to show any patterns - the test stat numbers are not leaning towards one direction, indicating that Absolute Base Pay level has little impact on the relationship between Total Cash and Performance. However, the test stats for H3a(ii) are mostly negative, suggesting that the higher the Base Salary level, the weaker the link between Total Compensation and Company Performance (i.e. the hypothesis is not supported).

This observation is particularly evident for the CEO group in 2008/09 and for TSR where significant results are present in five out of six the performance measures and for four consecutive years since 2005/06 respectively. According to results in Part 1, Base Salary is strongly and positively related to Company Size. This may therefore suggest that the correlation between Total Compensation and Performance is weaker among larger companies. Based on this finding and that of Annual Bonus being the most TSR related pay element, perhaps one could argue that companies should re-balance the Total Cash mix of executives and focus more on the variable element.

Focusing on the CEOs, this group shows the most number of significant results which indicates that the Total Compensation-Performance relationship is more likely to be negatively affected by Base Pay for CEOs than it is for other groups. Specifically, the results suggest that the link between Total Compensation and TSR could be weakened by higher Base Pay.

The effects of Variable Pay on the Pay-Performance relationship (H3c(i) and H3c(ii) - Appendix C pages 309-310)

Although there are some negative numbers, all of the significant P-values for H3c(i) have positive test stats. This supports the hypothesis (i.e. the higher proportion of Variable Pay the stronger the Total Cash-Performance link) to a certain extent. H3c(ii) shows similar results for the Total Compensation-Performance link. It is not exactly surprising to find that higher

proportion of Variable Pay has a positive effect on the Pay-Performance link. And TSR being the measure that produced significant results does tally with other findings in Part 2.

The effect of LTIs on the Pay-Performance relationship (H3d(i) and H3c(ii) - Appendix C pages 311-312)

Hypothesis H3d(i) has only produced a small number of significant P-values. However, based on the signs of the test stats, the results appear to be consistent with those of H2d. For H3d(ii), there is a considerable number of negative test stats, suggesting that the higher the proportion of LTIs, the weaker the relationship between Total Compensation and Performance which is contrary to the prediction. The only positive significant results include the CEO group: 2005/06 TSR; 2007/08 TSR and the Finance Director group: 2005/06 TSR; 2006/07 TSR and Net Income; 2007/08 TSR. The results of H3d(ii) do mirror those of H2d in that higher LTIs proportion appears to have a positive effect on the Total Compensation-TSR relationship despite largely not with other performance measures.

The effects of Size on the Pay-Performance relationship (H3e(i) and H3e(ii) - Appendix C pages 312-313)

The results for H3e(i) do not appear to show any patterns. The test stat numbers are not leaning towards one direction. Company size appears to have little impact on the relationship between Total Cash and Performance which is consistent with the findings of H3a(i) as it is the larger companies that tend to pay higher base salaries. For H3e(ii), the results are not significantly indicative but most of the test stat signs are negative which imply that the larger the size of companies, the weaker the Total Compensation-Performance link. While Size is the main driver of Base Pay levels of executives, it has relatively little, if any, influence on the Pay-Performance relationships. Larger companies tend to have very different pay practices to smaller ones but among the FTSE 100 group, the differences are not significant enough to affect the pay-performance link.

The effect of Board Structure on the Pay-Performance relationship (H3f(i), H3f(ii), H3g(i), H3g(ii), H3h(i) and H3h(ii) - Appendix C pages 314-328)

H3f (Board Size), H3g (Proportion of Non-executive Directors) and H3h (Remuneration Committee Size) are the three variables which were tested to examine the impact of corporate governance board structure factors on the Pay-Performance link. The results for H3g and H3h are mostly random, indicating that the Proportion of Non-executive Director and Remuneration Committee Size bear little effect on the Pay-Performance relationship.

Board Size seems to be the only factor that demonstrates some mildly meaningful results. Most test stat numbers are negative, suggesting that the link between Pay-Performance is negatively correlated to Board Size for hypotheses H3f(i) and H3f(ii). Both sets of results indicate that the larger the board, the weaker the Pay-Performance link. H3f(i) appears to have produced more significant than H3f(ii), i.e. Board Size negatively affects the Total Cash-Performance link more than the Total Compensation-Performance link.

The effect of Bonus Opportunities on the Pay-Performance relationship (H3k(i) and H3k(ii) - Appendix C pages 323-324)

Most test stat numbers are positive for both H3k(i) and H3k(ii), suggesting that the greater the bonus potential, the more closely linked is it between Pay and Performance. The overall significance level is higher for H3k(ii) - Total Compensation-performance relationship than that of H3k(i) - Total Cash-performance relationship.

It is common practice for companies to have different Maximum Annual Bonus Opportunity (as reflected in Table 1) for their CEOs and other executive directors (and sometimes even a different plan structure with different measures altogether). The purpose to have different plans is often due to the recognition that CEOs have more influence over the company performance and greater responsibility. However it appears that bigger bonus potential does not necessarily improve the Pay-Performance link significantly.

The Pay-Performance relationship - Total Cash vs Total Compensation (H2c, H2f, H3l(i) and H3l(ii), Appendix C pages 293, 296 and 325-328)

Before moving on to discussing H3l(i) and H3l(ii) which are focused on the relationship between Performance and Total Cash and Total Compensation, it is important to first look at the results of H2c and H2f side by side. As shown in Tables 14(i) and 14(ii), in 2008/09, considering all four incumbent groups, there are 11 cases where Total Cash is significantly correlated to performance.

However, there is only one case for Total Compensation. Over the study period, Total Cash is significantly correlated to performance in 26 cases; Total Compensation has only 18 cases. In other words, looking at the broad picture, Total Cash seems to be more related to Performance than Total Compensation.

Table 14 Comparisons of pay-performance relationships between H2c and H2f**Table 14(i): H2c - The number of significant positive correlations between total cash and performance across all incumbent groups by year and position**

	CEO	FD	All		Total
			Directors	All - CEO	
2004/05	1	1	1	1	4
2005/06	0	3	1	2	6
2006/07	0	0	1	1	2
2007/08	0	1	1	1	3
2008/09	3	4	1	3	11
Total	4	9	5	8	26

Table 14(ii): H2f - The number of significant positive correlations between total compensation and performance across all incumbent groups by year and position

	CEO	FD	All		Total
			Directors	All - CEO	
2004/05	1	0	1	2	4
2005/06	1	2	3	1	7
2006/07	0	0	0	1	1
2007/08	1	1	2	1	5
2008/09	1	0	0	0	1
Total	4	3	6	5	18

Source: this author

The relationship between Total Cash and Performance - CEOs vs Other Directors (H3I(i), Appendix C pages 325-326)

Hypothesis H3I(i) is not supported by the results as CEO Total Cash is not more positively related to Performance than other incumbent groups. The incumbent groups Finance Director and All Directors minus CEOs both out-ranked CEO in this respect (see Table 15(ii) for details). In fact, the CEO group has the most number of Rank 4s.

Research tends to report that CEO's pay package often have a greater proportion of variable elements such as LTIs than those of other directors. And variable pay should in theory improve the Pay-Performance link. However the results for H3I(i) do not support this argument and the CEO group does not have stronger Pay-Performance relationships than the other incumbent groups. Quite conversely, Tables 15(i) and (ii) show that CEOs are often with the least number of significant correlations and the least correlated in terms of significance.

Table 15 Total cash: CEOs vs other directors

Table 15(i) - Ranking

Total Cash vs Company Performance				
Year	2004/05			
	CEO	FD	All Dir	All - CEO
EPS	1	2	3	4
EBITDA	3	4	1	2
Sales	4	3	2	1
Net Inc	3	4	2	1
TSR	1	2	3	4
ROE	3	4	1	2

Total Cash vs Company Performance				
Year	2005/06			
	CEO	FD	All Dir	All - CEO
EPS	4	2	3	1
EBITDA	4	3	2	1
Sales	4	1	3	2
Net Inc	4	1	3	2
TSR	4	1	3	2
ROE	2	1	4	3

Total Cash vs Company Performance				
Year	2006/07			
	CEO	FD	All Dir	All - CEO
EPS	2	4	3	1
EBITDA	1	2	3	4
Sales	4	2	3	1
Net Inc	2	4	3	1
TSR	4	3	1	2
ROE	2	1	4	3

Total Cash vs Company Performance				
Year	2007/08			
	CEO	FD	All Dir	All - CEO
EPS	1	4	3	2
EBITDA	4	1	2	3
Sales	4	3	2	1
Net Inc	3	2	4	1
TSR	4	3	2	1
ROE	4	3	2	1

Total Cash vs Company Performance				
Year	2008/09			
	CEO	FD	All Dir	All - CEO
EPS	4	1	3	2
EBITDA	3	4	2	1
Sales	2	1	4	3
Net Inc	1	3	4	2
TSR	4	1	3	2
ROE	3	1	4	2

Source: this author

Table 15(ii) - Counts

Total Cash				
2004/05	CEO	FD	All Dir	All-CEO
# Rank 1	2	0	2	2
# Rank 2	0	2	2	2
# Rank 3	3	1	2	0
# Rank 4	1	3	0	2
2005/06	CEO	FD	All Dir	All-CEO
# Rank 1	0	4	0	2
# Rank 2	1	1	1	3
# Rank 3	0	1	4	1
# Rank 4	5	0	1	0
2006/07	CEO	FD	All Dir	All-CEO
# Rank 1	1	1	1	3
# Rank 2	3	2	0	1
# Rank 3	0	1	4	1
# Rank 4	2	2	1	1
2007/08	CEO	FD	All Dir	All-CEO
# Rank 1	1	1	0	4
# Rank 2	0	1	4	1
# Rank 3	1	3	1	1
# Rank 4	4	1	1	0
2009/09	CEO	FD	All Dir	All-CEO
# Rank 1	1	4	0	1
# Rank 2	1	0	1	4
# Rank 3	2	1	2	1
# Rank 4	2	1	3	0
Total:	CEO	FD	All Dir	All-CEO
# Rank 1	5	10	3	12
# Rank 2	5	6	8	11
# Rank 3	6	7	13	4
# Rank 4	14	7	6	3

Source: this author

The relationship between Total Compensation and Performance - CEOs vs Other Directors

(H3I(ii), Appendix C pages 327-328)

Similar to H3I(i), CEO Total Compensation is not more positively correlated to Performance than other incumbent groups. While there are more Rank 1s for the CEO group, only two of them are significant results (Table 16(i)). Again, the CEO group has actually the most number of Rank 4s (see Table 16(ii)). The All Director minus CEO groups appears to have stronger correlations between Pay and Performance than the CEO group.

Table 16 Total compensation and performance: CEOs vs other directors

Table 16(i) - Rank

Total Compensation vs Company Performance				
Year	2004/05			
	CEO	FD	All Dir	All – CEO
EPS	2	1	3	4
EBITDA	1	4	2	3
Sales	4	3	2	1
Net Inc	4	3	2	1
TSR	1	2	3	4
ROE	3	4	1	2

Total Compensation vs Company Performance				
Year	2005/06			
	CEO	FD	All Dir	All – CEO
EPS	4	1	3	2
EBITDA	3	4	2	1
Sales	4	3	1	2
Net Inc	4	3	1	2
TSR	2	3	1	4
ROE	1	4	3	2

Total Compensation vs Company Performance				
Year	2006/07			
	CEO	FD	All Dir	All – CEO
EPS	4	3	2	1
EBITDA	2	4	3	1
Sales	4	1	3	2
Net Inc	2	4	1	3
TSR	4	2	1	3
ROE	1	4	2	3

Total Compensation vs Company Performance				
Year	2007/08			
	CEO	FD	All Dir	All – CEO
EPS	1	4	3	2
EBITDA	2	1	3	4
Sales	4	2	1	3
Net Inc	4	2	3	1
TSR	4	3	2	1
ROE	3	4	1	2

Total Compensation vs Company Performance				
Year	2008/09			
	CEO	FD	All Dir	All – CEO
EPS	1	4	3	2
EBITDA	3	2	4	1
Sales	1	2	4	3
Net Inc	4	2	3	1
TSR	4	2	3	1
ROE	1	4	2	3

Source: this author

Table 16(ii) - Counts

Total Compensation				
2004/05	CEO	FD	All Dir	All-CEO
# Rank 1	2	1	1	2
# Rank 2	1	1	3	1
# Rank 3	1	2	2	1
# Rank 4	2	2	0	2
2005/06	CEO	FD	All Dir	All-CEO
# Rank 1	1	1	3	1
# Rank 2	1	0	1	4
# Rank 3	1	3	2	0
# Rank 4	3	2	0	1
2006/07	CEO	FD	All Dir	All-CEO
# Rank 1	1	1	2	2
# Rank 2	2	1	2	1
# Rank 3	0	1	2	3
# Rank 4	3	3	0	0
2007/08	CEO	FD	All Dir	All-CEO
# Rank 1	1	1	2	2
# Rank 2	1	2	1	2
# Rank 3	1	1	3	1
# Rank 4	3	2	0	1
2009/09	CEO	FD	All Dir	All-CEO
# Rank 1	3	0	0	3
# Rank 2	0	4	1	1
# Rank 3	1	0	3	2
# Rank 4	2	2	2	0
Total:	CEO	FD	All Dir	All-CEO
# Rank 1	8	4	8	10
# Rank 2	5	8	8	9
# Rank 3	4	7	12	7
# Rank 4	13	11	2	4

Source: this author

The Pay-Performance relationship by Industry (H3m(i) and H3m(ii) - Appendix C pages 329-352)

Considering all incumbent groups and performance measures (between 2004-2009), the industry that has the most number of positive Total Cash-Performance links is Oil/Gas and Minerals, followed by Finance then Chemicals & Pharmaceuticals. If split by incumbent group, the top result for each is as follows:

CEOs: Other services

Finance Directors: Finance

All Directors: Oil/Gas and Minerals

All Directors excluding CEOs: Oil/Gas and Minerals.

Retail & distribution and Transport & Leisure are the two industries that have the most number of negative relationships. It is interesting that Finance actually comes second (in terms of the number of significant positive results) given all the controversy over bankers' bonuses in recent years. And it has only one negative correlation (compared to 10 for Retail & Distribution and Transport and Leisure (see Tables 17(i) and 17(iii) for details; note: industries with zero counts have not been included).

As for Total Compensation, the Chemical & Pharmaceuticals industry has the greatest number of significant positive correlations, followed by Food/drink & tobacco then by Finance. Property and Utilities have the highest number of negative correlations. Again, Finance did not fare as badly as one might expect (see Tables 18(i) and 18(iii) for details; note: industries with zero counts have not been included). In addition, it is found that TSR is the performance measure that has the most number of significant positive links with Total Cash across the industries (22 cases). These results are dominated by three sectors, namely Finance, Oil/Gas and Minerals and Chemicals & Pharmaceuticals. The other performance measures have between 11 to 14 cases of significant positive result each.

In term of measures with significant negative performance links, EBITDA fares worst with 14 cases (many of which in either the Retail & Distribution or the Chemicals & Pharmaceuticals sectors), followed closely by TSR (mainly Engineering Electrical and other Manufacture companies) and ROE (mainly Transport & Leisure companies) with 13 cases each.

Although the data are not too robust, it may be worth pointing out that for the CEO group, EPS is the measure that has the greatest number of significant positive Total Cash-Performance relationships across the industries. At the same time, for the All Directors minus CEOs group, EPS has the least number of such links. Further, the measure that has the highest number of significant positive correlations with Total Compensation across the industries is Sales (22 cases - mainly Food/Drink & Tobacco, Chemicals & Pharmaceuticals and Media/Marketing & Telecommunications companies).

TSR came next with 18 cases (largely Chemicals & Pharmaceuticals and Finance companies). EPS and TSR have the fewest significant negative links. Similar results are observed across the incumbent groups. As seen in Tables 17(ii) and 17(iv), 2008/09 has the highest number of significant positive Total Cash-Performance links across the industries while also the least number of negative links. The same year also sees the most significant positive Total Compensation-Performance relationships. Yet there are also the highest numbers of such

negative links (Tables 18 (ii) and 18(iv) for details). Again, the data may not be robust enough for any of the findings to be considered statistically significant due to the relatively small sample size.

Table 17 Industry comparisons - total cash

Table 17(i) - Significant positive relationships - total cash across industries by incumbent group

	CEO Tcash	FD Tcash	All Tcash	All-CEO Tcash	Total
Chemicals & pharmaceuticals	2	3	3	3	11
Construction & building materials	0	0	0	0	0
E-business/software & computer services	0	0	0	0	0
Engineering electrical and other manufacture	3	0	3	3	9
Finance	1	4	4	3	12
Food/drink & tobacco	1	0	1	0	2
Media/marketing & telecommunications	1	1	1	1	4
Oil/gas & minerals	2	0	8	8	18
Other services	5	1	0	1	7
Property	0	0	2	1	3
Retail & distribution	2	1	2	3	8
Transport & leisure	1	1	0	1	3
Utilities	2	3	0	2	7

Table 17(ii) - Significant positive relationships - total cash across industries by year

Industry	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Chemicals & pharmaceuticals	1	0	1	5	4	11
Construction & building materials	0	0	0	0	0	0
E-business/software & computer services	0	0	0	0	0	0
Engineering electrical and other manufacture	0	6	3	0	0	9
Finance	3	1	0	6	2	12
Food/drink & tobacco	0	0	1	0	1	2
Media/marketing & telecommunications	2	0	0	2	0	4
Oil/gas & minerals	3	5	7	0	3	18
Other services	2	3	0	0	2	7
Property	0	1	0	0	2	3
Retail & distribution	1	0	0	0	7	8
Transport & leisure	1	0	0	0	2	3
Utilities	2	2	2	0	1	7
Total	15	18	14	13	24	

Table 17(iii) - Significant negative relationships - total cash across industries by incumbent group

	CEO Tcash	FD Tcash	All Tcash	All-CEO Tcash	Total
Chemicals & pharmaceuticals	1	3	3	2	9
Construction & building materials	0	0	2	0	2
E-business/software & computer services	0	0	0	0	0
Engineering electrical and other manufacture	2	0	3	3	8
Finance	0	0	0	1	1
Food/drink & tobacco	0	1	0	2	3
Media/marketing & telecommunications	2	2	2	2	8
Oil/gas & minerals	1	0	0	1	2
Other services	0	0	1	0	1
Property	2	1	1	1	5
Retail & distribution	3	3	2	2	10
Transport & leisure	3	0	4	3	10
Utilities	0	1	0	0	1

Table 17(iv) - Significant negative relationships - total cash across industries by year

Industry	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Chemicals & pharmaceuticals	2	0	3	4	0	9
Construction & building materials	0	0	2	0	0	2
E-business/software & computer services	0	0	0	0	0	0
Engineering electrical and other manufacture	0	6	0	2	0	8
Finance	0	0	0	1	0	1
Food/drink & tobacco	1	0	0	0	2	3
Media/marketing & telecommunications	0	0	2	4	2	8
Oil/gas & minerals	0	1	0	1	0	2
Other services	0	0	0	1	0	1
Property	0	1	0	3	1	5
Retail & distribution	0	7	2	0	1	10
Transport & leisure	7	1	0	2	0	10
Utilities	0	0	0	1	0	1
Total	10	16	9	19	6	

Source: this author

Table 18 Industry comparisons - total compensation**Table 18(i) - Significant positive relationships - total compensation across industries by incumbent group**

Industry	CEO Tcomp	FD Tcomp	All Tcomp	All-CEO Tcomp	Total
Chemicals & pharmaceuticals	5	3	5	4	17
Construction & building materials	0	0	0	0	0
E-business/software & computer services	0	0	0	0	0
Engineering electrical and other manufacture	1	2	1	2	6
Finance	1	3	2	2	8
Food/drink & tobacco	4	3	3	1	11
Media/marketing & telecommunications	1	1	2	4	8
Oil/gas & minerals	0	0	0	1	1
Other services	2	0	0	0	2
Property	2	0	2	2	6
Retail & distribution	1	0	1	1	3
Transport & leisure	1	0	1	1	3
Utilities	0	2	1	3	6

Table 18(ii) - Significant positive relationships - total compensation across industries by year

Total Compensation	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Chemicals & pharmaceuticals	2	1	3	6	5	17
Construction & building materials	0	0	0	0	0	0
E-business/software & computer services	0	0	0	0	0	0
Engineering electrical and other manufacture	0	0	1	2	3	6
Finance	0	1	1	2	4	8
Food/drink & tobacco	4	4	0	1	2	11
Media/marketing & telecommunications	4	1	2	0	1	8
Oil/gas & minerals	0	0	1	0	0	1
Other services	1	0	0	0	1	2
Property	0	2	0	0	4	6
Retail & distribution	2	0	0	0	1	3
Transport & leisure	0	0	2	1	0	3
Utilities	1	2	2	1	0	6
Total	14	11	12	13	21	

Table 18(iii) - Significant negative relationships - total compensation across industries by incumbent group

Industry	CEO Tcomp	FD Tcomp	All Tcomp	All-CEO Tcomp	Total
Chemicals & pharmaceuticals	1	0	1	1	3
Construction & building materials	0	0	0	0	0
E-business/software & computer services	0	0	0	0	0
Engineering electrical and other manufacture	0	0	0	0	0
Finance	0	0	1	1	2
Food/drink & tobacco	0	0	0	1	1
Media/marketing & telecommunications	1	1	1	1	4
Oil/gas & minerals	3	1	1	1	6
Other services	0	2	3	1	6
Property	3	0	3	2	8
Retail & distribution	0	1	1	3	5
Transport & leisure	1	1	2	2	6
Utilities	1	3	2	2	8

Table 18(iv) - Significant negative relationships - total compensation across industries by year

Industry	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Chemicals & pharmaceuticals	0	0	0	3	0	3
Construction & building materials	0	0	0	0	0	0
E-business/software & computer services	0	0	0	0	0	0
Engineering electrical and other manufacture	0	0	0	0	0	0
Finance	0	0	1	1	0	2
Food/drink & tobacco	1	0	0	0	0	1
Media/marketing & telecommunications	0	1	0	1	2	4
Oil/gas & minerals	0	0	3	1	2	6
Other services	0	0	0	1	5	6
Property	0	1	6	1	0	8
Retail & distribution	0	4	1	0	0	5
Transport & leisure	2	1	0	2	1	6
Utilities	0	1	0	0	7	8
Total	3	8	11	10	17	

Source: this author

Negative Pay-Performance relationships (H2a, H2b, H2c, H2d, H2e and H2f - Appendix C pages 291-296)

When examining the relationships between the different pay elements and performance, the focus was predominantly on all the significant positive results. However, perhaps it is also worth noting that there are, in total, only two significant negative correlation across the six

hypotheses in discussion: H2e - All Directors group - 2006/07 - EBITDA, and H2f - All Directors minus CEOs - 2006/07 - EBITDA.

So, while insignificant results are in the majority, in comparison, there are many more significant positive correlations than negative, indicating that executive pay is at least not as negatively related to performance as one might have feared.

4.2 Key findings and observations

The hypothesis testing results have been summarised above, but what do these results actually mean? After consolidating all the statistical data as well as the observations gathered from the literature review, ten findings have been established that are of sufficient significance in relation to the study to warrant more detailed examination.

A list of these findings is set out in Table 19, each of which will then be briefly discussed individually in relation to the literature to set the basis for the discussion chapters that follow.

Table 19 Key findings and observations

F1	CEO Pay in general appears to be less strongly related to performance than finance directors and other executives.
F2	Annual bonuses are found to be as related to company performance as long term incentives and other elements of pay.
F3	Total cash is the pay element that seems to be most strongly related to performance - more than long term incentives, variable pay and total compensation.
F4	Companies seem to be more concerned with being compliant to governance codes and following their industry peers in devising executive pay structures than they are in designing reward schemes that are attuned to the firm's specific market circumstances.
F5	There are no obvious signs showing that the relationship between pay and performance became any stronger between 2004 and 2009 despite the many far-reaching changes in governance that were implemented in this period.
F6	Board size is found to have a negative effect on the overall pay-performance relationship.
F7	Total shareholder return is the performance measure that is by far most closely associated to executive pay.
F8	Executive long term incentive plans of FTSE 100 companies are by and large very similar both in general design and in matters of detail.
F9	The financial services industry has not performed discredibly in terms of linking pay and performance, when compared to other industry sectors.
F10	Pay levels are still largely determined by the size of the company.

Source: this author

Finding 1 (F1) - CEO pay in general appears to be less strongly related to performance than finance directors and other executives.

The finding that CEO pay appears to be less strongly related to performance than finance directors and other executives appears to support some of the principles put forward by managerial power theory. If the men or women at the top are found to be able to command higher remuneration than their fellow executives regardless of individual or company performances, perhaps it could be attributed to the ability of the CEO to demand and receive that remuneration by virtue of the greater power conferred by his or her position. If this argument holds, one could suggest that such imperial behaviour may be colluded in, even encouraged, by some board members for a variety of multiple agency related reasons. The financial director, for example, may have more than one selfish motive to act as the CEO's accomplice. Frequently, the CEO's role is filled by promotion of the financial director. In supporting a CEO's demand for higher pay, the financial director is thus paving the way for higher remuneration for him-/herself in future. Again, the financial director is frequently in a position of great power within the company by virtue of his or her command highly sensitive and confidential financial information, while at the same time remaining far less prominent or visible to the media and corporate stakeholders.

Finding 2 (F2) - Annual bonuses are found to be as related to company performance as long term incentives and other elements of pay.

Few other aspects of pay have attracted as much criticism from the public and the media as the payment of annual bonuses as incentive vehicle for top executives. The criticisms most frequently and most widely voiced against bonuses are that they focus only on annual performance targets and hence encourage short-termism in management and that they are often surrounded by secrecy, covered by claims of 'commercial sensitivity' simply to avoid full disclosure of the details that would reveal whether or not they are justified. Above all, annual bonuses were criticised as it was said they were ineffective in aligning the interests of shareholders and executives (see Chapter 2 for details).

Bonuses were also a target for criticism from the start of attempts at modern governance reform and were highlighted by the Greenbury Report in 1995 and subsequent investigations of pay. They represented an obvious target for media headlines of the 'fat cat' variety and the attention of both media and regulators cause a decline in popularity of bonuses during the 2000s. However, it must be noted that one of the commonest misperceptions of executive annual bonuses was and is that they are an arbitrary extra 'treat', rather than a carefully

calculated part of a remuneration package that is dependent on the achieving of specified targets. Hence, most attempts at reform considered that the interests of shareholders were best served not by short-term incentives such as annual bonuses but by long term incentives such as two-part share plans. For example, the Financial Reporting Council's Combined Code (2006) requires companies' remuneration committees to attach appropriate performance conditions to all incentives:

- Short term bonuses should have conditions that are 'relevant, stretching and designed to enhance shareholder value'.
- Long term incentives must be subject to 'challenging performance criteria reflecting the company's objectives'.

The present finding appears to indicate that long term incentives are not superior to annual bonuses as far as linking to performance is concerned, nor are any other component of pay.

Another point to note is that annual bonus and long term incentives have not been commonly studied as stand-alone variables in pay-performance link analysis, although bonus payments are usually included in both total cash and in total compensation; while long term incentives are included only in total compensation. As observed by Bruce et al (2007), annual bonuses have been practically ignored in UK's pay and performance literature. The rationale and processes behind bonus award, and the impact of bonus on aggregate pay and the pay-performance relationship, have received comparatively little attention from a UK perspective.

The study by McKnight and Tomkins (1999) is one of the few that focused on bonuses using UK data. Bruce et al (2007 p292) went on to suggest that, 'the absence of more detailed scrutiny in the UK relates to the fact that annual bonus has always been "part of the furniture" of UK executive pay, whereas less familiar and more recent pay component innovations, such as share options or LTIPs have attracted the attention of pay analysts and academic researchers in recent years'. There have also been many doubts among academics in regards to the effectiveness of bonus plans. Some suggested that these bonus arrangements may lead to a focus on the determining variables of these compensation plans, perhaps leading management to neglect other aspects of performance (Weisbach 1988; Dechow and Sloan 1991; O'Neill 2007). Bebchuk and Fried (2004) even argued that bonus performance criteria may themselves serve the interests of executives rather than shareholders.

As a whole, it would seem fair to say that latest corporate governance reforms did not place much emphasis on bonuses. For instance, the UK Combined Code (2006) simply requires companies' remuneration committees to attach appropriate performance conditions to all incentives: short-term bonuses should have conditions that are 'relevant, stretching and designed to enhance shareholder value'.

It is therefore interesting that my results have indicated a positive relationship between bonus and performance (TSR), but more than that, the relationship between bonus and performance is no weaker than that of long term incentives.

Finding 3 (F3) - Total cash is the pay element that seems to be most strongly related to performance - more than long term incentives, variable pay and total compensation.

As noted previously, UK corporate governance, institutional investors and shareholders all seem to favour the use of LTIs than annual bonus plans. Given this climate of thinking, one might expect total compensation to be more performance driven than total cash as the latter does not include LTIs. However, the results from this study indicate that this does not seem to be the case. Moreover, many researchers have criticised previous research that use total cash as their main or, in some case, only pay variable, instead of total compensation, which captures LTIs. However, based on the findings described in the previous section, total cash seems far from being irrelevant as a pay variable in corporate governance research.

What is more, the appeal of long term incentives appears to have waned somewhat in the past few years and the UK has never caught up with the LTIs payout levels in the US. According to Fernandes et al (2009), base salary and annual bonus typically constitute around seventy five per cent of UK executive's pay packages. While it would be good to include LTIs, it is still justifiable to continue analysing total cash compensation as Gregg et al (2012 p26) aptly put it: '...our pay variables did not include equity incentive payments, but given the increase in cash compensation over the period of study, it seems relevant to examine whether there is any link between the cash pay of executives and the performance of the company, during a time of extreme stock price volatility and against a back-drop of a series of changes to corporate governance mechanisms'.

There is recent evidence (Girma et al 2007; Ozkan 2007; Guest 2010; Gregg et al 2010) to suggest that CEO total cash is often found to be positively related to performance yet the significance is not always consistent. Results from the current analysis are also in support of those just-mentioned but importantly, it is found that the Total Cash-Performance links for the

Finance Directors and the All Directors minus CEOs groups are even stronger than that of the CEOs group. This finding is of particular interest because there are relatively few studies that have examined executive positions separately.

Finding 4 (F4) - Companies seem to be more concerned with being compliant to governance codes and following their industry peers in devising executive pay structures than they are in designing reward schemes that are attuned to the firm's specific market circumstances.

A common theme of the efforts that have been made over the past twenty years to improve UK corporate governance has been through greater transparency and disclosure. Best practice guidelines have therefore become considerably more comprehensive, often detailing specific recommended features for different forms of remuneration arrangements as outlined in Chapter 2 (Section 2.1.3). This might have contributed to the much similar executive pay structures and incentive plan designs that is evident among FTSE 100 companies today. One could go as far as arguing that, in general, companies are more concerned with being compliant with rules and regulations, and merely doing what peer companies do in terms of compensation provisions than they are in devising programmes that are most relevant to the firm's individual business needs. This is more likely to ensure that they are not in danger of drawing any non-compliance related negative attention to themselves unnecessarily. This is one of the unexpected outcomes of corporate governance policy and will be discussed greater length in the next chapter.

Finding 5 (F5) - There are no obvious signs showing that the relationship between pay and performance became any stronger between 2004 and 2009 despite the many far-reaching changes in governance that were implemented in this period.

One marked trend exposed by the data is that there are no obvious signs showing that pay-performance link became any stronger between 2004-2009 despite all the many far-reaching changes in governance that were implemented in this period. This finding is similar to the one observed in a recent longitudinal study conducted by Gregg et al (2012 p4) which also found 'little evidence of an upward trend in pay-performance sensitivities' between 1994 and 2006.

However, there does appear to be variation in the strength of pay-performance linkage in two distinct phases of the period under study - 2004-2006 and 2007-2009 respectively. It appears that the link was weaker in a bull market, before 2006, when investor confidence was higher, when the economy and markets themselves were stronger and companies were performing better. During these very buoyant market conditions, it is to be expected that companies became more relaxed in their attitude towards corporate governance practices. At the same

time shareholders and investors, too were more relaxed about executive pay levels when companies were performing well and delivering high profits, so that shareholders were receiving tangible benefits and perceived that their assets were being managed to their advantage.

An additional effect of the bull market was that, as corporate performance was high, a certain level of complacency was arguably evident, reflected in lack of scrutiny of the pay-performance link, and lack of criticism from public, media and parliament. However, in 2006-2007, the economy began to collapse and the linkage between pay and performance improved soon after. This can best be interpreted as indicating that companies responded quickly to market movements by tightening up on governance to avoid negative reactions from stakeholders and the press.

Finding 6 (F6) - Board size is found to have a negative effect on the overall pay-performance relationship.

Between 2004 and 2009, the size of boards tended to grow smaller. In many cases, this was a deliberate move and was considered to be a move in the direction of better governance practice. However, while the results were largely in line with the hypothesis, the overall effect is not marked enough to translate into a much stronger link between pay and performance. At the same time it is also found that remuneration committee size and non-executive ratio have no bearing on the link between pay and performance.

From the outset of governance reform it was argued that smaller board size will 'have a restraining impact on pay levels or changes and a positive impact on the pay-performance link' (Guest 2009 p1077). Smaller boards are expected to be more effective because the latter often face with problems associated with free-riding (Yermack 1996). For example, it is harder for larger boards to organise meeting, make decisions, which results in lower efficiency and effectiveness (Jensen 1993). As noted by Guest (2010 p1078), free-riding occurs more frequently 'because the cost to an individual director of not carrying out his monitoring role properly decreases as board size increases.' (Lipton and Lorsch 1992, cited in Guest 2010 p1078).

Hermalin and Weisbach (2003) conducted a review of the literature and found the majority of empirical studies documented a negative association between board size and company performance. More recently, Guest (2010) and Renneboog and Trojanowski (2010) both

observed similar findings and presented evidence that larger boards to be associated with a higher level of compensation. Two recent studies also presented similar findings. On the other hand, however, Morck (2004, cited in Ozkan 2007 p11) argued that ‘based on the findings in the social psychology literature larger, more diverse boards can be related to more effective monitoring’.

Finding 7 (F7) - Total shareholder return is the performance measure that is by far most closely associated to executive pay.

Clearly, the UK governance reform has placed much emphasis on the use of long term incentive and total shareholder return relative to an appropriate index or peer group has persistently been recommended by governing bodies and regulators as a generally acceptable performance criterion. These recommendations received widespread support from shareholders. As a result, the majority of FTSE companies adopted performance share plans with TSR as the vesting conditions (Conyon et al 2000 and Ozkan 2007). It is therefore not too surprising to see TSR being the performance measures with the most positive links to executive pay in this study. While it is encouraging that TSR has produced such positive results, it is both disappointing and baffling that a number of other performance variable analysed (e.g. EPS and EBITDA) are virtually unrelated to pay.

Finding 8 (F8) - Executive long term incentive plans of FTSE 100 companies are by and large very similar both in general design and in matters of detail.

Of all the pay elements, LTIs are often expected to be most related to company performance because the plans adopted by FTSE 100 companies all supposedly have ‘appropriate’ and ‘challenging’ targets attached. Yet, the results seem to suggest otherwise. As Finding 4 above pointed out, LTIs are not found to be more effective in driving company performance than other incentive vehicles. Could this be a result of FTSE 100 companies having pay practices and incentive arrangements that are very much alike (PricewaterhouseCoopers 2007 p24)? For instance, around 90% of FTSE 100 companies operate a performance share plan (Hewitt New Bridge Street 2006), 77% of which have TSR as the performance target (see Figure 10 in Chapter 1) as recommended by various best practice codes (e.g. Association of British Insurers Guidelines 2002 and 2005).

Could this be an indication of companies being overly compliant as suggested earlier when discussing Finding 4? Perhaps the increasingly stringent restriction of corporate governance

regulations has played a part in motivating companies to accept a one-size-fits-all approach to remuneration design as this reduces the risk of failing to comply? This, together with other possible explanations will be explored in Chapters 6 and 7.

Finding 9 (F9) - The financial services industry has not performed discredibly in terms of linking pay and performance, when compared to other industry sectors.

It appears that the financial services industry has not performed worse than other sectors during the study period. Similar results have been reported in recent studies conducted in both in the UK and the US. For example, Gregg et al (2012) explored the relationship between UK directors' cash compensation and performance over a 12-year period, focusing specifically on the financial services industry, and reported that, '...although pay in the financial services sector is high, the cash pay-performance sensitivity of banks and financial firms is not significantly higher than in other sectors.' Fahlenbrach and Stulz (2010) and Adams (2009) both found no evidence suggesting that executive incentives and governance practices of financial firms are less effective than non-financial firms. This finding is noteworthy because it points to the possibility that much of the malpractice actually occurred in the lines of business that were beyond the remit of governance and the individuals involved were non-board executives.

Finding 10 (F10) - Pay levels are still largely determined by the size of the company.

The study found size to be strongly and positively related to pay across all incumbent groups throughout the study period which is in line with past research.

The review of literature in Chapter 2 (Section 2.3.2.1) has highlighted that while linkages between directors' remuneration and company performance are yet to be established, there is consistent evidence of company size being a variable that has strong influence on pay in both the US and the UK (Benito and Conyon 1999; Conyon and Schwalbach 2000). There are several theoretical arguments which predict company size to be related to executive pay (refer to Section 2.2), and the one that is most relevant to the current study is the managerialist view. In short, proponents of managerial power theory suggest that executives exert power to seek control of the remuneration process and use their influence to link pay to factors, like company size, which are more stable and subject to lower compensation risk. This very concept and all the other key findings will be explored in more depth in the next chapter.

5 Background to discussion

Despite the progress made in governance regulation throughout the 1990s, financial scandals continued to be a feature of corporate life throughout the 2000s, leading to intensified scrutiny of executive pay by Parliament, media and public. News stories about directors setting their own pay, and massive payouts of seemingly unjustified bonuses, share incentives and pension benefits became common, resulting in public anger. Executives were seen as villains who partnered with remuneration consultants to ratchet up compensation levels. There was a perception that executive pay was increasingly out of control; a perception that was aggravated further by frequent reports of fraudulent activities, accounting irregularities, insider trading and lack of accountability, all seen as contributing to the latest economic crisis.

Against this controversial backdrop, the present study seeks to answer some of the outstanding questions raised by the extant literature on corporate governance and executive pay. The objectives of this piece of research have been detailed in Section 1.4.2 but the main aims are summarised again in Section 5.1 below together with an explanation of the research approach adopted.

In addition, as seen in Section 2.1.3 of Chapter 2, corporate governance in the UK has gone through a period of rapid and complex transition over the past 20 years, and many changes, including some drastic revisions continued to be introduced to the early 2010s. It is thus important to provide an overview of the current status of UK governance, as of mid-2012, and identify the key aspects that are most relevant and useful for this study (see Section 5.2).

To further help interpret the research findings and understand how observations were derived, the underlying assumptions on which this study is based will be set out in Section 5.3. This is followed by an outline of the structure of the discussion chapters (see Section 5.4).

Taken together as an overview, the background presented in this chapter will set the context for the ensuing discussions in Chapters 6 and 7.

5.1 Summary of research aims and approach

The fundamental goals of this study are:

- To seek to understand better the relationship between company performance and the remuneration of different FTSE 100 executive roles in the context of corporate governance - the insights gained through this exercise will then be used to attempt to answer further questions of interest and relevance such as:
 - Whether recent governance reforms have had a measurable positive effect?
 - Has the engagement with 'best practice' principles been proved a positive process in relation to the role of executive pay?
 - Have the new processes for determining pay, together with the requirement for the process to be more transparent, had an influence on prevailing compensation practices?

- To go beyond examining the determinants of pay to exploring the effects and consequences directors' remuneration as a key corporate governance mechanism. Specifically, the research is designed to:
 - Identify factors that may be inhibiting governance reform efforts and where government and regulators attention might best be directed to improve governance regulations.
 - Attempt to explain why, in practice, the reality of the boardroom differs from the predictions of academic theories.

- The study also seeks to overcome some of the data-related problems and limitations that have hampered previous research and contribute to the body of UK governance and executive pay literature which is at the moment relatively limited, especially compared to the US.

This study was carried out using a methodology that is in some respects similar to past governance and executive compensation research, but in some respects different. It is similar to past research in that its primary objective is to explore the relationship between pay and performance and that it employs some of the central assumptions of agency theory. In essence these assumptions are that pay schemes, if designed and implemented effectively, can help align the interests of the company and its executives, and that this alignment will in turn

improve the company's performance. Aside from this, however, my approach employed a number of key aspects that are less widely seen in previous research.

The study examined solely the United Kingdom market and its focus was limited to a relatively small sample of the 100 largest businesses in the UK - the FTSE 100 companies. Concentrating on a restricted sample of the FTSE 100 firms made it possible to consider the data in greater depth and examine a greater number of factors that may affect the pay-performance relationship individually (see Chapters 3 and 4 for details). In total, five years' worth of data have been analysed (from 2005 to 2009) in an attempt to uncover any trends in the study period.

To ensure more accurate and consistent comparisons, all the analyses were carried out using a 'constant sample' line by line basis (i.e. only incumbents who had been in the same role for two consecutive years were included in the dataset. In effect, new hires and recently promoted individuals' data were omitted to prevent skewing the results).

Due to the sample being restricted to no more than 100 companies, I was able to re-organise the data in a way that allowed for highly detailed analysis. Specifically, I managed to perform separate analyses for not only the chief executives (CEOs) but for four selected incumbent groups, namely:

- CEOs
- Finance directors
- All executive directors, and
- All executive directors excluding CEOs.

In terms of the remuneration data, they were categorised into a number of individual components as well as various collective elements (e.g. variable pay which was made up of annual bonus and different forms of long term incentives).

Additionally, as evidenced by the literature, the measurement of company performance has always been an issue on which executive compensation researchers are divided. One could even argue that it is one of the reasons for empirical findings being largely inconclusive. By way of mitigating this matter of contention, six company variables were used, capturing both accounting measures and market measures (refer to Chapters 3 and 4 for more detailed descriptions):

- Earnings per share growth
- EBITDA margins
- Sales growth
- Net income growth
- Total shareholder return, and
- Return on equity.

In order to capture such a broad range of data subsets, as explained in Chapter 4, it was decided to employ a statistical approach was relatively straight forward and uncomplicated.

The research takes agency theory as its main theoretical perspective because, despite some flaws, it is accepted as one of the best understood and most influential theories both in corporate governance and pay research, and also other social science disciplines. Further reasons for adopting agency theory in this study will be outlined in Section 5.1.1 below. But one of the most commonly perceived advantages of agency theory may be mentioned now: that it provides a relatively promising framework of how the use of a well thought-out set of employment contracts and a reward strategy that complements the company's business goals and direction can help reduce agency costs. It is believed interest alignment and improved company performance can be achieved through the appropriate design of an optimal pay structure, i.e. one that:

- Promotes fairness and accountability.
- Provides a suitable mix of reward components where the balances between fixed and variable, long and short term, cash and share and so on are properly considered.
- Comprises well-executed compensation arrangements that serve their intended purposes of changing the behaviour of executives, improving company performance and creating shareholder wealth.

Of course, in reality, it is almost inevitable that there will be unforeseen market events that affect the effectiveness of pay arrangements, but nevertheless the use of pay to drive results, performance and improve shareholder value is still widely practiced across the world's major economies. However, does such a thing as an 'optimal' pay structure really exist? And if the answer is no then why should this be the case if agency theory is partially correct? On paper, agency theory leads us to believe that there is such a thing, but in practice it has proved impossible to find.

It may well be that it is simply too difficult, if not impossible, to gauge accurately the effectiveness of a pay structure or an incentive plans because executive compensation does not operate in a vacuum. When a company performs well, there may be numerous contributing factors, some of which are difficult, if not impossible, to identify. How much of the improved performance is attributable to the pay structure of the contract or incentive plan? How much is due to unpredictable market movements, and how much is even down to luck?

One could also argue that there is no one-size-fits-all model simply because every company is different in many ways and has needs specific to its own business model. If so, a formula that works well for one company, may not work for another - even a company in the same industry, or of similar size.

A further reason for the dissonance between theory and practice is that most studies have been carried out quantitatively using large samples and aggregated data. If it is true that there is no single model that is universally applicable, then what is the point in simply increasing the sample size? In recent years there has been more qualitative research, such as Bender (2007), which is beginning to give the literature a more diverse and fresh perspective. However, it is still difficult to find detailed case studies to test the effectiveness of pay structure arrangements.

Finally, one has to recognise that in dealing with questions of pay and both executive and corporate performance, one is dealing with questions of the utmost commercial and personal sensitivity, thus making both data collection and analysis a thorny issue. Indeed, corporate governance changes have improved disclosure and transparency to some extent but there is still a need for companies not to compromise their operations and to retain commercial confidentiality to some extent.

5.1.1 Why using agency theory is appropriate

Even with all its limitations, agency theory assumptions are still very popular among regulatory bodies, consultants, industry experts and academics. Assumptions of the theory are deeply embedded in our corporate governance codes and in almost all past research. It is therefore important to examine and understand the subject of pay through the lens of agency theory. The UK Government has announced in 2012 that it is to introduce even more strict codes of corporate governance, including the introduction of the criminal offence of 'corporate negligence' with regard to financial matters, and these moves are also based on the

assumptions of agency theory - that incentives must be found to induce board executives to put the company's interests before their own.

Such ready acceptance of agency theory assumptions is found not only in the UK but also other countries such as US and Australia. Their corporate governance codes are all heavily based on the two key agency assumptions. For instance, many of the transparency and disclosure measures found in the Sarbanes-Oxley Act (US) and the corporate governance guidelines issued by the ASX Corporate Governance Council (Australia) were designed to tackle the issue of information asymmetry. Similarly, independence of non-executives and subcommittees is used to improve the monitoring function of the board, while incentive pay plays a major role in both economies, attempting to motivate executives to act and think more like shareholders.

It is perhaps necessary to point out that this may be less relevant for countries where the 'outsider governance model' is adopted (e.g. Germany). Under this system, the board structure is two tiered and the emphasis is on meeting the interests of all the stakeholders. However countries such as the UK and the US operate under the 'insider model' which is characterised by seeking to maximise shareholder value. This fact further highlights the relevance of agency theory in the context of this study.

5.2 UK's approach to corporate governance reforms

As seen in Section 2.1.3, there have been successive attempts to introduce regulations and guidelines aimed at curbing what are widely perceived as abuses during the past two decades. Many of these measures were considered as 'revolutionary' in their day (the Cadbury Report 1992 being the prime example). However, their effectiveness has yet to be proven. It has also been established in the course of this study that the problem pertaining to past corporate governance and executive pay studies could be due to issues with research methodologies and the over-reliance on agency theory's assumptions. Since the UK's governance guidelines have, one way or another, been shaped by agency theory, it seems reasonable to suggest that another possible contributing factor to the whole executive compensation muddle that the nation faces today (both in practical and academic research) is the governance reform itself.

A renewed examination of the reform process itself is of particular importance because corporate governance is now a prominent social issue; one whose impact is far-reaching, affecting all sections of society, and not just in the short term but perhaps for years if not

decades ahead. It has also become one of the priorities of the present Government's political agenda, and further legislation and regulation are currently under discussion. Moreover, a number of major financial institutions in the UK have been taken wholly or partly into public ownership as a result of the financial crisis in 2008 - hence it has become in the government's as well as the tax payers' interests to prevent similar problems from happening in future.

5.2.1 Corporate governance - current status

The main measures adopted since the reform movement began include additional monitoring duties for independent directors to prevent executives from setting their own pay, and new mandatory disclosure requirements. There have also been best practice guidelines for service contracts, reward package arrangements and incentive plan designs, from grant levels to specific performance targets. These measures are still considered to be relevant today as they continue to appear in the Code (2010) and the latest recommendations put forward by the government in 2012.

The present social climate of demanding greater regulation represents a balancing act for corporate boards, and in particular for members of remuneration committees as well as external compensation consultants, when developing pay packages. On one hand there are pressures on them for greater compliance as deviations from recommendations are not only regarded as bad practice but often a source of controversy and bad press. On the other there is the need for them to be flexible, to move away from the norm and become adaptable to specific business needs - a topic that is further discussed later on in Chapters 6 and 7.

Another major challenge faced by those tasked with reforming governance is that few of the attempts at reform in the past were conceived strategically. In many cases they were simply ad hoc responses to specific problems that arose, for instance:

- The Cadbury Report (1992) came about to tackle the issues associated with the collapse of BCCI Bank and the Robert Maxwell pension fund scandal which led to the formalisation of UK procedural governance under the principle of 'comply or explain'.
- The Greenbury Report (1995) was a direct attempt to assuage public outrage and rebuild investor confidence regarding executives setting their own pay and the payment of large bonuses.
- Other reports such as Higgs (2001), DRRR (2002) and IFRS2 were all developed to deal with specific problems that had arisen through abuse and malpractice.

As a result, one could argue that after 20 years of reform, the UK now has a corporate governance system made up of a series of piecemeal initiatives, all with different objectives trying to address different issues, and hence not at all integrated.

Not only have attempts at reform been piecemeal, but so too have their effects. The UK's general approach of 'comply or explain' allows much room for companies to adapt the guidelines to their individual circumstances, making it even harder to measure the exact impact of each mechanism. To date, the cumulative effect of all these governance changes is still unclear, but the general perception - rightly or wrongly - is that little has improved. It is clear that this is an issue that needs to be explored further.

In seeking to discover to what extent attempts at reform have been successful it is important to first clarify what exactly are the objectives of the corporate governance initiatives. Take for example the ground-breaking Cadbury Report of 1992, so far, much of the available literature suggests that the reforms of Cadbury have been ineffective (Dedman 2002, Thompson 2005, Heracleous 2001). But what were the real aims of the Report?

- To improve company performance?
- To create shareholder value?
- To align interests?
- To improve the pay-performance link?
- To prevent further scandals?
- To monitor and change the behaviour of executives
- To encourage executives to act ethically and accountably?
- To ensure pay levels do not get out of hand and ensure fair and justifiable executive pay?
- To induce good governance practice and promote company social responsibility?

Given such a wide divergence of possible aims, it is difficult to be clear as to which aspects of the corporate governance reform are working and which are not working. Or were reforms intended to achieve all of the above? And if so, were governance reforms too ambitious in their scope? Is the role currently ascribed to corporate governance too broad? Is it even possible to achieve all of these aims, especially working in a fragmentary manner?

As already explained, the rationale behind the 'comply or explain' approach is to give companies a certain degree of flexibility to adapt and adopt the best practice guidelines to best

suit their specific circumstances. This is unquestionably a refreshing idea that was much welcomed not only in the UK but also globally, but one can argue that the idea may have somewhat backfired, since it appears that boards, remuneration consultants and even shareholders and investors have been placing excessive emphasis on being compliant rather than making most of the benefits of this 'comply or explain' approach. In many cases, companies seem to have become complacent and comfortable with simply following the recommendations to the letter to avoid the scrutiny of regulators or the media.

This approach of becoming highly compliance-led may well be desirable when it comes to issues like level of disclosure, transparency, board composition, board evaluation process and the like. But such levels of compliance could negatively affect the effectiveness of executive pay as a tool to drive company performance.

For example, it is already evident that instead of implementing arrangements that are tailored to their own individual company needs and goals, the majority of FTSE 100 companies have adopted very similar pay structures and plans. They have adopted annual bonus schemes and performance share plans all with very similar features such as target levels, maximum levels, and performance conditions, irrespective of company size or industry or cycle or performance or financial situations. Put simply, remuneration committees and consultants are happy to settle for a 'cookie cutter' approach to governance - primarily to avoid accusations of being non-compliant. The main aim of this approach seems to be a way of playing safe to avoid getting 'red-topped' (accused of a breach of guidelines) by the Association of British Insurers, rocking the boat at the Annual General Meeting, or generating still more negative media coverage.

While measuring the effectiveness of regulation is difficult, it is fair to say that much progress has been made with respect to board processes and that there have been many changes brought about by corporate governance among FTSE 100 companies over the past 5-10 years that are clearly distinguishable, for example:

- Board sizes have, on average, become smaller, which research suggests is better from a governance point of view.
- The number of non-executive directors on the board has increased. The appointment of senior non-executive directors has become commonplace and measures have been put in place to ensure their independence both on the board and on and on subcommittees.

- There is now a clearer separation in the roles of chairman and chief executive officer.
- Average service contract has been shortened - typically down to 12 months from 24 months (Higgs 2002).
- The practice of paying bonuses on signature and on leaving (so-called 'golden hello' or 'golden handshake' deals), excessive liquidation damages clauses, pension augmentations on termination, and change of control provisions that allow incentive plans to vest without reference to performance are no longer common practices.
- There is more comprehensive disclosure and improved transparency, for example reporting on remuneration, naming of external consultants, publication of TSR charts, and the need to seek shareholders' approval vote at AGMs.

In fact, the tightening of governance guidelines has positively influenced not only board structure and contracting arrangements but also specific incentive plan designs as such:

- Non-performance dependent share options and restricted shares have all but disappeared and replaced by performance related awards.
- Re-testing of performance conditions (whereby executives were given a second chance to meet their target) is also largely a thing of the past and has been replaced with sliding scales arrangements.

Interestingly, all the changes in regulation seem to have this side effect: that executive pay itself has become subject to whatever may be the latest regulatory fad. As noted earlier, questions of pay structure and pay mix as well as incentive plan design appear to have been, in some cases, dictated by the latest corporate governance recommendations, rather than chosen with regard to what is right for the company at that point in time. In a similar vein, the so-called 'best practices' related to executive pay often change due to factors, that far from being generally accepted or agreed upon, are still subject to vigorous debate. To illustrate this point, some examples are given below.

What is and should be the purpose of pay?

From a corporate perspective the purpose of pay is to attract and retain talented people, motivate executives to still higher levels of performance, reward past effort, and to align the executive's interests with the company's. A particular remuneration package will be a combination of these elements but with different weighting depending on the circumstance of the company.

The actual compensation mix (i.e. fixed pay versus variable pay; short term versus long term incentives; cash based versus equity based) should be determined according to individual company needs rather than based solely on market data, the latest trends, or what other companies are doing.

What are or should be the appropriate pay levels?

The question of whether pay levels are 'high', or 'too high' is subject to many different views and depends on which side of the negotiating table you are sitting. For every criticism of 'high' pay there is an equal and opposite commendation.

High pay is fine, it is said, so long as it performance linked. Against this it is said that high pay is not fine as it will generate negative media comment which will upset investors and shareholders and may influence the buying decisions of customers. Pay, it is said, should be dependent on performance and not size. But against this it is argued that the larger the company, the greater the responsibility, so pay should also reflect this.

Where there is perhaps a higher measure of agreement is that the relativity (in terms of pay levels and rate of increase) to general employees must not be excessive and that any pay gap must be narrowed. One frequently invoked yardstick is to claim that pay should be 'competitive' - yet in aiming to be competitive, all sides seem to aim for the 50th percentile or above. Competitive has thus become synonymous with high.

The design of incentive plans

This is an area that has been subjected to much controversy from not only industry experts, academics, policy makers, regulators but also the media and the general public. Debates tend to be related to the following issues:

- The plan mechanics being too complex versus being too simple yet easily understood
- Potential payouts set too high, running the risk of upsetting shareholders versus too low a quantum to be sufficient to attract and retain executives and drive the desired behaviour
- Performance targets not challenging enough versus them being perceived as being unachievable by the participants. This perception may have a detrimental effect on the motivation of senior executives
- The question of whether to benchmark relative performance to an index or an industry group is another matter of contention

- More recently, incentive plans have also been accused of being too 'compliance led' and prescriptive, but then, anything out of the box or unconventional would often attract much less than welcome attention.

Performance measures and targets

This is a widely discussed topic that has already been brought up a number of times in this thesis. One can argue that there is no such thing as a 'right' or 'wrong' measure in absolute terms as whether a measure is suitable would depend on the specific circumstances of a company. There are numerous metrics to measure company performance, each with their advantages and disadvantages. Debates are often between advocates of accounting measures (e.g. the bottom line) and those in favour of measuring performance in the market against prevailing conditions and competition.

In addition, the past 20 years have also seen the rise and fall of the more complex measures such Economic Value Added as well as simpler ones such as earnings per Share. Of late, it appears that many companies in the FTSE 100 index have opted to use the suggested recommended performance criteria set out in the various governance guidelines. As a result, the majority of share option plans are subject to an EPS target whereas relative TSR is the measure of choice for performance share plans.

Incentives and motivation

Companies use incentives to motivate executives with the aim of driving the required behaviour and results for shareholders. It could be argued that attempts at aligning executive interests with shareholder interests are based on the assumption that executives are primarily motivated by financial incentives. However, there has been a gradual shift in the perception of what actually motivates senior executives. It is increasingly evident that factors such as work environment, power, status, reputation and peer rivalry all matter as much as extrinsic rewards.

The role external consultants and remuneration committees

Most, if not all, remuneration packages among FTSE 100 companies are designed with the assistance of external remuneration consultants. On the face of it, such consultants are employed by the company to represent the shareholders' interests. In reality, however, consultants are selected and engaged by the company's executives and such contracts are a lucrative source of business for consultants. There is thus a potential conflict of interest in which it may not be clear which side the remuneration consultants are on. Potential also exists

for executives to exert pressure on consultants to agree ever-higher remuneration packages that are essentially devised by executives themselves.

Although there can never be a 'one size fits all' corporate governance framework or pay structure that works perfectly for everyone, some companies still appear to prioritise compliance over designing a remuneration plan that makes best business sense for the company in its present market context. In the 1990s, it was common for companies to spend millions on hiring high profile management consulting firms (e.g. McKinsey, AT Kearney, Bain & Co and the like) to help develop and implement highly technical yet tailored pay arrangements but these attracted criticism for being too complex (see Section 5.3). The trend started reversing when governance codes became increasingly precise in pay-related recommendations. It seems clear that being strictly compliant does not automatically lead to improved company performance which raises the question: why do so many companies still comply blindly, especially when in the UK they enjoy the privilege of being able to 'comply or explain' - something denied to their US counterparts? Are they being cautious, or are they being complacent?

When a board is clearly complying with the letter of every regulation, few voices are raised in dissent. Could it be that the very detailed best practice guidelines are giving shareholders the false impression that by being compliant, all other issues will be solved? That simply by being seen to toe the line:

- There will be no more excessive pay
- Pay will be linked to performance
- Interests will be aligned
- Shareholder value creation has top priority
- Non-executives and consultants will carry out their regulatory roles effectively
- Shareholders and investors will be happy, improving confidence all round.

Clearly, in reality, this issue is about striking a balance between compliance and remaining competitive - a balance that is demonstrably hard to achieve, hence the continued widespread perception that governance is still largely failing and pay continues to be seen as largely non-performance linked. So, is it the case that corporate governance recommendations and mechanisms (including those related to executive pay) simply do not work? Or is it that they do work, just that they have not been implemented properly? Who is to blame for this situation? The board? Remuneration consultants? Chief executives with too much power? And what

exactly is it that is going wrong? Is it the theories, the research methods, the approach to governance, or merely a matter of perception, or perhaps a combination of all these elements? The remainder of the chapter will explore these questions.

5.3 Assumptions underlying the interpretation of results

The interpretations of the findings presented in the following discussion are based on a set of assumptions that are consonant with the context of this study and are explained below.

Agency theory posits that an effective pay contract that is by and large optimal, coupled with monitoring, can drive down the cost associated with the problem of separate ownership and control for a particular company at a certain time. Thus executive pay packages (incentives in particular), if designed and implemented effectively, can help mitigate agency problems and costs.

As noted earlier, there is a current tendency for FTSE 100 companies to arrive at very similar ready-made remuneration packages with a minimum of individual tailoring or bespoke elements designed to fit their organisation and its market position. Arguably, the most likely explanation is that they all use only a handful remuneration consulting firms⁶ who hold an effective oligopoly at the top end of the FTSE scale. This tendency stands in contrast to the 1990s, when monitoring was not as stringent, and when it was common for companies to hire management consultants, who specialised in strategy, to develop and implement highly tailored pay arrangements and remuneration policy that aligned closely with the business strategy. This resulted in highly customised and complicated models that few people - even within the boardroom - understood. At the time, much less explaining to shareholders about how and why these plans deviated from best practice or the practice of peer organisations needed.

Today, with much stricter governance measures, including rules on disclosure, it would be an uphill task for executives to explain such deviations to gain the support and approval of shareholders. Life is much easier and simpler for companies that simply do what others are doing and follow the official guidelines. When governance reforms began in the 1990s, one main aim was to give more information to shareholders and the public and this was why complaints were raised regarding highly complex value tree type models as being overly

⁶ *The largest executive compensation consultants in the UK include Towers Watson, Mercer, Hewitt New Bridge Street, Hay Group, Kepler Associates, KPMG, PricewaterhouseCoopers, Deloitte and Ernst and Young.*

elaborate. Companies responded to these complaints by simplifying their models and following governance recommendations more closely, even though many of these customised models managed to effectively target very specific company business drivers in a transparent manner, and in many cases, actually delivered relatively satisfactory end results.

Agency theorists believe that incentives hold a lot of the answer to correcting the opportunistic behaviour exhibited by executives. Much literature has acknowledged the merits of this point. One could, however, question whether incentives could actually drive shareholder-friendly actions and business results if their designs and mechanics are largely dictated by governance codes.

In terms of sample size, it is relatively common for researchers to include FTSE 350 or Fortune 500 companies in their pay studies. The positive aspects of a large sample to interpret significant results are that it allows a more precise estimate of the effect the variable and it is usually easier to assess the representativeness of the sample and to generalise the results. Yet, with a smaller sample, such as the FTSE 100 in my case, it is feasible to conduct more detailed analysis. This approach should prove advantageous to investigating why in reality, good corporate governance practices and the use of pay contracts have not delivered the expected results - at least not in a consistent manner.

Rarely a day goes by without some mention of (or attack on) executive pay in the media. The following list of examples of common perceptions and misconceptions regarding executive pay and corporate governance have been taken from the pages of daily broadsheet newspapers. They are representative of views expressed by many print and broadcast media and in Parliament by Members. They also reflect the overall impressions of the issue of the general public. However, it is necessary to point out that some of the claims seem to have been exaggerated and some of the perceptions misconceived, the reason for which will be discussed in the course of this chapter.

- 'CEOs set their own pay.'
- 'Executive pay is too high and rising too fast especially in relation to general employees' pay.'
- 'Companies still do what they want - their managements are out of control.'
- 'Company executives are ruthless, greedy, even unethical - all they care about is money.'
- 'Corporate governance reform has been ineffective.'

- 'There is not enough monitoring and government intervention.'
- 'There are too few regulations regarding pay, and pay is not adequately performance-linked.'
- 'Corruption and fraudulent activities are commonplace in the boardroom, especially in the financial services sector'.
- 'The whole corporate system of governance is not transparent and is aided by politicians.'
- 'In many areas, we find that pay systems are not meeting their intended goals of attracting, motivating, and retaining executives. To the extent that these goals are being met, it is often in spite of rather than because of the incentive plans in place.'

These media perceptions and criticisms are a reflection of a substantial list of prevailing problems that are widely seen as continuing to dog UK companies despite two decades of attempted reform:

- Executives continue to be the subject of fierce public and media scrutiny
- The disparity between CEO and employee pay continues to widen
- CEOs are still too influential and powerful
- Executive behaviour remains largely unchanged
- There are no signs of executive pay becoming fairer
- Executive pay continues to be driven mainly by company size rather than performance
- Executive incentives are not strongly linked to performance but down to luck, market movements and survey data
- Compliance is over-reliant on the board and non-executives to monitor executives
- Evaluation of boards is not widespread and there are no guidelines for such evaluation
- There are no penalties, or punishments for non performing executives or boards
- External advice is provided by too few consultants. There is not enough true competition
- Investors' confidence is at an all-time low
- The problem identified by agency theory still exists: there continues to be poor alignment of interests between owners and executives and companies still incur a cost as a result.

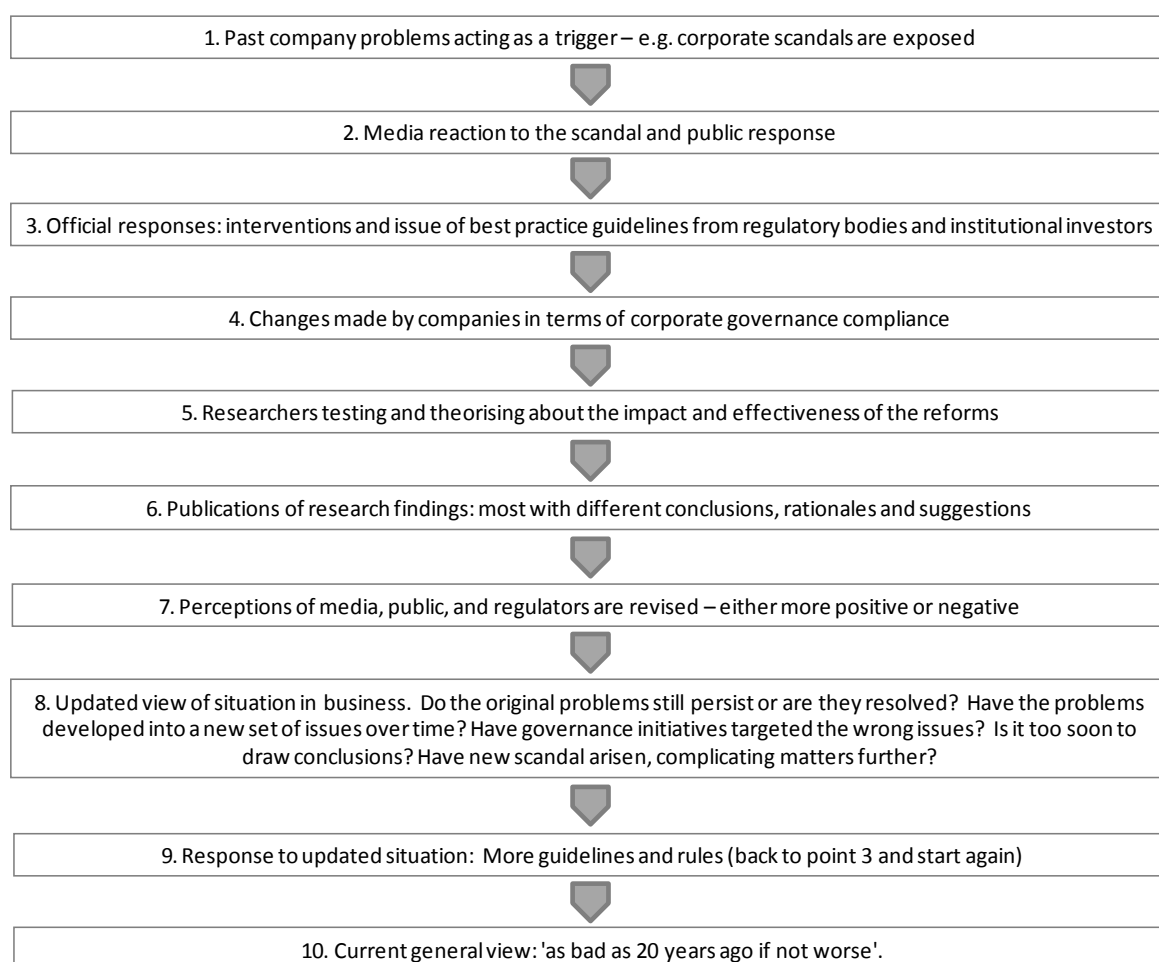
Before moving on to discuss whether my results support any of these allegations, it may be useful to recap the process the UK has taken to reform the corporate governance system.

Figure 14, Figure 15 and Table 20 show, respectively, in simplified form an overall view of the

UK corporate governance reform process, a single illustration of this process at work, and changes in corporate governance and executive pay practices that resulted.

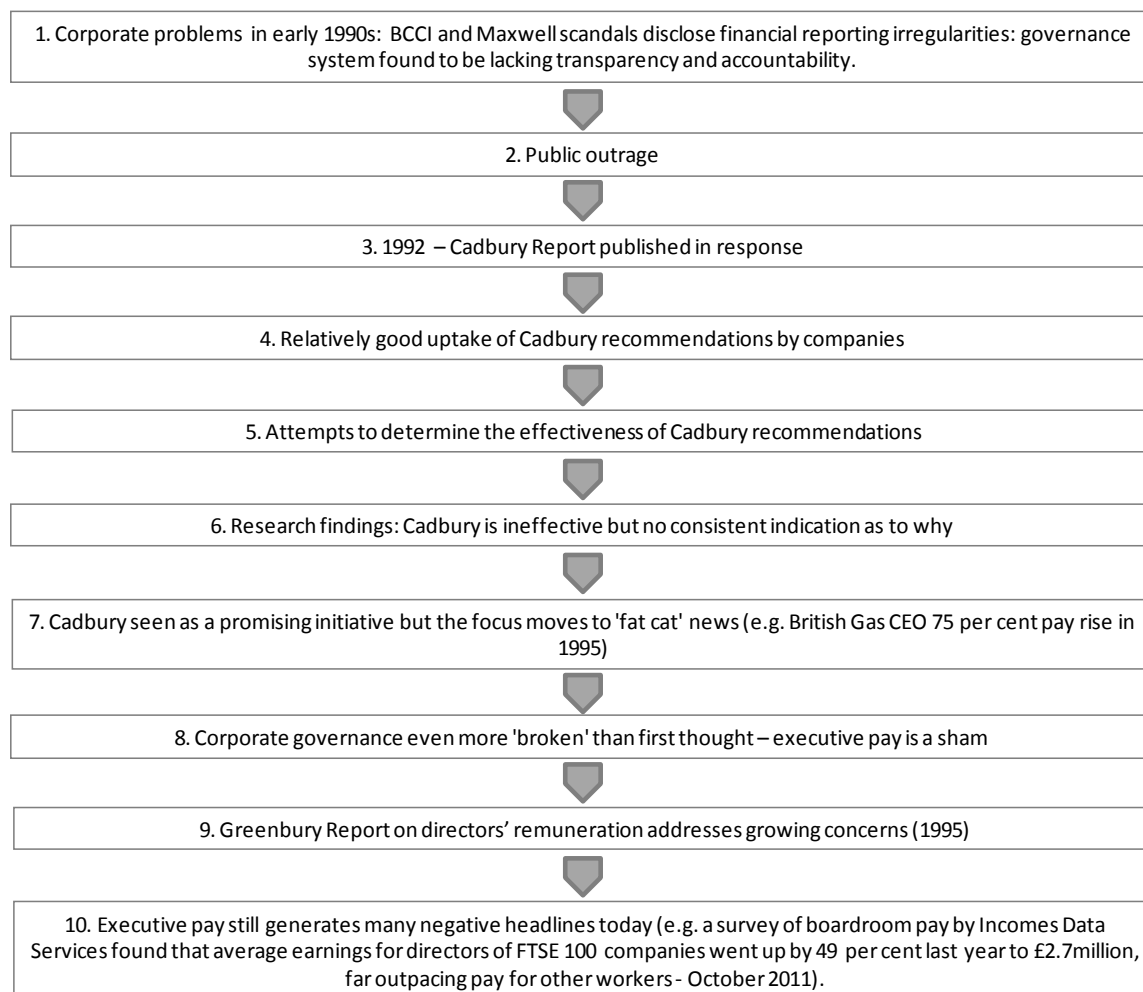
Providing a generalised overview of this process in both general and particular should be of value in gaining a better understanding of the current problems, interpreting my results more appropriately, and providing a fresh perspective to this longstanding contentious issue. As the Figures 14 and 15 paint a gloomy picture, it is important and necessary at this point to reiterate that all in all, some progress has been made over the past twenty years in key areas (Table 20) that are invaluable in helping create a fairer and more successful corporate landscape.

Figure 14 A simplified view of the UK corporate governance reform process since 1990



Source: this author

Figure 15 An illustration of the process described in Figure 14



Source: this author

This typical example is drawn from the recent past and it would be easy for a modern audience to gain the impression that corporate governance reforms around the world started with a blank slate in the early 1990s. In fact, of course, this cycle of events has happened on many previous occasions historically, notably following the Wall Street Crash of 1929. Many of the issues raised above were examined in detail in *The Modern Corporation and Private Property* (Berle and Means 1932) published in the wake of the stock exchange crisis of 1929.

Table 20 Changes in corporate governance and executive pay practices

• Separation of roles of chairman and CEO
• Independence of non-executives
• Independence of subcommittees
• Senior Independent Director role
• 12 month contract (down from 24 months)
• Fewer golden handshake/golden parachute cases
• Improved transparency
• Mandatory disclosure requirements under the Directors' Remuneration Report Regulations 2002
• IFRS 2 - expensing share payments (option grants are no longer 'free')
• External advisers' accountability
• Shareholder votes needed for approval of pay plan
• More stringent incentive plan criteria and performance targets
• Zero pay rise and incentive payouts
• Shareholder activism: Association of British Insurers rating systems
• Regulatory bodies responding to public and media concerns
• Safeguards to prevent executives from being able to manipulate their own earnings

Source: this author

These measures have been implemented, albeit bit by bit, but with good up-take, many of which have undoubtedly had an impact on the way in which companies are structured and run, especially in terms of pay practices. More than that, at the international level, many countries view the UK governance framework as the benchmark of how these things are done. Many have even adopted certain aspects of the UK model, with enhanced remuneration disclosure requirements and the advisory vote on the remuneration report being among the most well-regarded policies.

However, it is clear that corporate governance is still largely perceived as inadequate in general, with executive pay continuing to face fierce criticisms from every direction. It is almost inconceivable to think that 20 years of reform have got us nowhere.

Is the general perception distorted or biased? The key question here is whether the successive iterations of governance rules and guidelines have actually achieved their objectives? In other words, has the recent development in UK corporate governance been successful in eradicating the worst instances of payment for failure in the UK? More specifically, has it been successful at promoting pay for performance? An attempt to address these fundamental questions will be presented in Chapters 6 and 7.

5.4 Structure of discussion chapters

The main discussion will consider the research findings in the context of corporate governance, based on the examination of the literature and the results from the quantitative investigations. It is organised in two phases, following the two specific corporate governance objectives that have been briefly considered in Chapter 2 (Section 2.3) and are set out in Table 9. In short, they are:

CHAPTER 6: OBJECTIVE 1 - To improve the monitoring function of the board

CHAPTER 7: OBJECTIVE 2 - To align the interests of executives and shareholders through pay

The first objective to be considered (Chapter 6) is related to increased monitoring and control of executives by forming a board of directors to act in a watchdog role. The intention is that the presence of an effective board will bridge the 'information asymmetry' gap between executives and shareholders and deter executives from seeking personal gain at the expense of the long term health of the business (Huse 2007). Immediately, one can see that while considering executives to be self-interest-seeking, it is assumed that non-executive directors somehow have little regard to their own personal interests and are to be trusted to serve the interests of shareholders in an impartial manner. This assumption of the board's ability to exhibit altruism and professionalism, while executives cannot, is at least inconsistent. The second governance objective to be addressed in Chapter 7 concerns the use of remuneration, share incentives in particular, to motivate executives in order to align their interests with those of the shareholders.

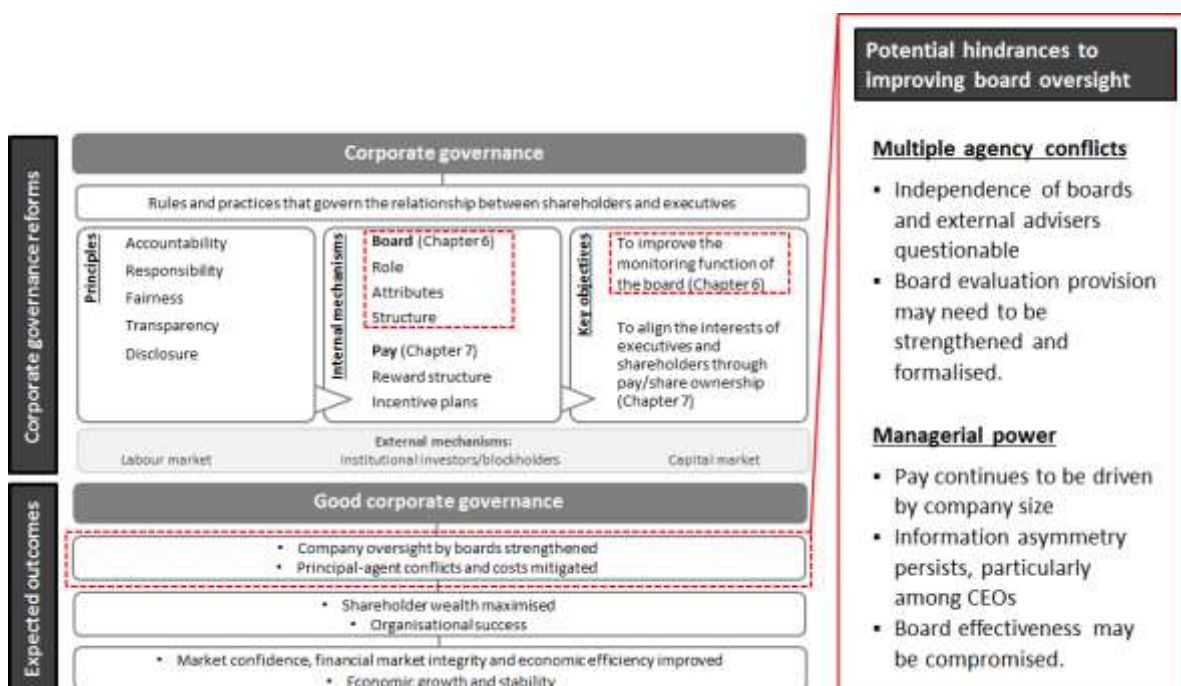
Both objectives reflect agency perspectives, and despite theoretical rigour being demonstrated in research, a number of these perspectives are questionable in practice. Findings from this study suggest that, in practice, the objectives are ineffective and flawed in certain aspects. Some of these defects have been highlighted by previous researchers while some are new, and both will be discussed in the next two chapters.

6 Discussion phase 1

Governance objective 1- to improve the board monitoring function

As discussed in Chapter 5, many of the UK corporate governance reform efforts have been introduced to enhance the monitoring of executive behaviour through ‘independent’ boards. Using multiple agency and managerial power arguments, this chapter examines whether Objective 1 (i.e. to improve the board monitoring function) has been achieved and suggests potential hindrances to improving board oversight (as illustrated in Figure 16) The discussion will be based on both the observations by made in Chapter 2 as well as Findings 1, 5, 6, 7, 8, and 10 presented in Table 19 and discussed in Section 4.2. Three key issues will be explored, namely: the desired pay-related effects (Section 6.1), the verdict rendered by the findings of the present study (Section 6.2) and possible rationales for these findings (Sections 6.3 and 6.4).

Figure 16 Discussion phase 1 - improving oversight through ‘independent’ board



Source: this author

6.1 The desired pay-related effects of objective 1

One of the aims of strengthening the monitoring and control function of the board, by making structural and procedural changes, was to improve pay related issues such as the pay determination process and the linkage between pay and company performance, specifically:

- Size of organisation should not be the key or the only statistically proven determinant of pay levels: performance should play a much more significant part. In the recent past we have had the example of the Royal Bank of Scotland which expanded rapidly to become a global bank but then failed because of poor performance (Cadbury 1992).
- The pay setting process itself should become fairer and more transparent - all decisions made must be impartial and justifiable, and subject to shareholders' approval at the AGM, so that executive pay levels will increasingly move in line with company performance as opposed to market movements. In particular, measures should reduce the chances of windfall gains in pay (Greenbury 1995; DRRR 2002).
- To achieve greater fairness, executives should no longer be involved in deciding their own pay and should not even be present during remuneration committee meetings. Remuneration committee should both be truly independent of influence from executives and should be seen to be independent (Cadbury 1992; Higgs 2003).
- Instead of the CEO, Financial Director, or other individuals with potential conflict of interest, external consultants should be appointed by remuneration committee to assist in setting pay levels. All advice and recommendations of both external consultants and members of the remuneration committee should be disclosed in the Remuneration Report (DRRR 2002).
- Changes to the composition of board, such as overall board size, the ratio of independent non-executive directors to executives, the separation of the roles of CEO and Chairman, and the appointment of a senior independent director, should be made with the aim of creating a board with stronger shareholder interest representation (Cadbury 1992; Higgs 2003).
- The organisation's pay policy and practices should reinforce the company business strategy and reflect good corporate governance (a high level of compliance to governance guidelines) and should have as their top priority the importance of creating shareholder value (Cadbury 1992).
- The pay arrangements decided upon should serve a variety of purposes; to attract, retain and motivate executives, to reward executives and align their interests, and should be linked to company-specific performance targets (Greenbury 1995).

- Executives' performance, especially the CEO's, should be closely monitored by the Board at all times and thorough appraisals should be conducted regularly, ideally on an annual basis, as is usual with other staff (Cadbury 1992).
- Improved disclosure and transparency should alleviate the problems associated with information asymmetry, making it harder for executives to withhold information and following the board to evaluate the performance of executives more accurately (Cadbury, 1992, DRRR 2002).

Has any of the above been achieved, and to what extent? The results from this study provide a number of indications.

6.2 Indications from the literature and research results

It appears that few of these objectives have been achieved.

Executive pay is still mainly driven by size of organisation, much more so than by company performance, as consistently found by previous researchers. Given that this is still the case despite governance changes that have been made, one can legitimately ask who or what is more to blame for this situation? Is it the board (including the executives) itself, who continues to exercise a dominating influence of the setting of pay? Or is it that remuneration committees and consultants have too tamely acceded to the wishes of the board?

Over the period of the study, the link of pay and performance has not got much stronger and despite some positive correlations being found, there is no significant upward trend. By far the most important finding is that the pay of CEOs is found to be less strongly performance linked than other executive board members. This finding is quite at odds with the fact that CEOs have a larger proportion of variable pay than other executives, so their pay should be more related to performance. The CEO's remuneration package is usually more variable simply because their greater influence over the business means that they need to be more accountable and more transparent than their colleagues. Can the fact that their pay continues to be less related to performance be attributed to them using their position of power to reward themselves? This highly relevant and important question will be discussed in greater detail later Section 6.4.

Further, pay is found to be correlated mainly to total shareholder return. No consistent results have been observed with other performance measures included in the analysis (EPS growth, net income growth, EBITDA margin, sales growth and ROE). In one sense this finding is good news,

in that improved shareholder value is one of the key measures advocated by those wishing to link pay more closely to company performance. But one is bound to question whether the fact that total shareholder return is the only performance variable that has produced significant positive results is a sufficient indication that corporate governance has helped progress executive pay in the right direction, however small the movement might be?

The ratio of non-executive directors to executive has increased, as intended by corporate governance reformers, but this increase in ratio has had no significant positive impact on the pay-performance relationship. So does this mean that increased monitoring by non-executives is futile? What explanations can be found for corporate governance reforms failing to have the desired effects? One way to try to understand the current situation is in terms of the existing theories - the finding will be discussed through agency theory and managerial power theory in turn.

6.3 Discussion from an agency perspective

As noted earlier, in academic research, agency theory provides the general model for analysing managerial behaviour and offers one of the most influential concepts in the study of corporate governance and executive compensation. Within the agency framework, executives are seen as being liable to take actions that are advantageous to themselves even if those actions are to the detriment of the company and its shareholders.

Aside from the specific criticisms discussed in Section 2.2.1.4, the most significant overall criticism levelled at this view in previous studies is that it is an unrealistic oversimplification of what must inevitably be very complex personal human relationships, and that in many circumstances those personal relationships will be more important in determining the outcome of board decisions than the simple principal-agent relationship. This criticism, however, does not dispose of the merit of recognising that there is a misalignment of interests between executives and shareholders. And the concept of 'multiple agencies' - branched out from agency theory and based on the same principles - should be of help in providing some potential explanations in support of the research findings.

6.3.1 Multiple agency conflicts

Resting on a simple duality between principal and agent seems too simple for modern corporate structures. Relationships are often more complex than this. Double or multiple

agency conflicts may be intertwined and numerous complex relationships are possible. For instance, the finance director might be the agent of the CEO (who is the principal in this argument) or may be colluding since finance directors are often promoted to become CEOs themselves. Other possible multiple agency relationships within a company may include:

- CEO vs board vs shareholders
- CEO vs finance director and other executives
- CEO vs shareholders
- CEO vs board vs external advisers
- CEO vs remuneration committee vs board vs shareholders

This issue in regards to multiple agencies has been highlighted precisely by Tricker (2009), 'other critics have challenged the shareholder-director agency model as simplistic as practice. Where, for example, the ultimate beneficial owner has invested through a pension fund, which invests in a hedge fund, which invests in a private equity company, which places funds in the hands of a financial institution, which invests in the shares of a listed company but lends them as collateral for another transaction, who is agent for whom I ask?' (Tricker 2009 p222).

Clearly, it is possible for individuals other than the CEO (including non-executive directors), to behave as 'agents' where the problem of potential moral hazard and conflict of interest may well arise. Since more and more responsibilities and expectations are being placed on the board to safeguard and promote the interests of shareholders, it is crucial to not only question whether it is reasonable to rely quite so heavily on a few of these 'independent non-executives' but also re-visit the definition of independence. Simply meeting the criteria for being independent surely does not automatically mean that the individual will unequivocally support the shareholders and have their interests at heart and at all times?

Is it ever possible to know for sure that these so-called 'independent directors' do not and will not have conflicting interests to the shareholders or be apathetic? Why are they seen as naturally more trustworthy and thus less likely to seek personal gains at the expense of shareholders? It is difficult to see any rational basis for the assumption that non-executive directors will not engage in self-serving behaviours simply because they have been designated as 'independent'. Further, the board is created to monitor senior executives and evaluate their performance, but who is there to assess the performance of the board?

Is this not a case of, in the words of Juvenal, ‘Quis custodiet ipsos custodes?’ or ‘Who will watch the watchmen?’ Similar questions have been raised by a number of academics (see Table 21 below), yet no one seems to have arrived at a satisfactory answer, a solution or a meaningful conclusion.

Table 21 Literature evidence that questions the concept of ‘independent’ directors

Author	Exemplary quotes
Rodrigues (2007 p1)	‘According to conventional wisdom, a supermajority independent board of directors is the ideal corporate governance structure. Debate nevertheless continues empirical evidence suggests that independent boards do not improve firm performance’
Clarke (2007 p73)	‘...the whole purpose of having independent directors is surprisingly under theorised, leading to inconsistent rules’
Page (2009)	‘unconscious bias’ of ‘independent’ non-executive directors
Monks and Sykes (2002 p16)	Monks and Sykes asked ...why redefine definitions of independence’ which everyone knows to be untrue?’

Reference: Quotes cited in Baker and Andersen (2010 p90)

In the UK, good corporate governance relies heavily on corporate boards that are altruistic to act as a restraining influence on self-interested executives. Similarly, boards rely on external advisers to act responsibly and ethically. Clearly, if in reality things were indeed so simplistic, my research and that of others would have shown very different results - given the high level of conformity and compliance to governance guidelines. So why has the use of non-executive directors failed to prove effective as hoped in moderating remuneration?

6.3.2 Independence of non-executive directors

Synthesising the findings of the study and the literature review has provided a number of possible explanations as to why non-executive directors are not effective.

First, there is no compelling reason for non-executives to take what are bound to be unpopular decisions and to act in a way that is likely to be seen as disruptive and be resented by their colleagues. Quite simply, it is easier to leave things as they are and not make changes that are likely to annoy other board members.

In some cases, non-executives do not have either enough information to be aware that action needs to be taken, or enough power to take action. More than that, non-executives tend to meet infrequently or only on a limited number of times a year. This means that they only have

time to focus on basic issues of compliance, with little or no time left for in-depth discussions about matters of detail, which may be perceived as relatively unimportant. One can also argue that they do not get paid enough (£40,000 to £60,000 a year is the current rate, KPMG 2008) to motivate them to tackle their role with sufficient energy to make serious or disruptive changes.

Moreover, it is not unusual for non-executives to take on appointments for personal reasons such as prestige or to build up their curriculum vitae, or for networking purposes. Such motives as these are likely to make a non-executive hesitate before taking actions that may ultimately result in losing those benefits. There may also be instances where a non-executive director may already have a personal relationship with the CEO (Gomez-Mejia et al 2010) or other board executives (e.g. finance director) yet still be classed as 'independent' according to the official definition. In such cases, is it realistic to expect non-executives to be totally altruistic simply by labelling them independent?

This issue has been highlighted by Tricker (2009 p244), '...most of the "games" described involve the subtleties of communication and interpersonal relations. Most of the tactics are not illegal, do not amount to fraud, nor are they inherently dishonest. They are a means to achieving directors' personal preferences.' The author argued that the role of non-executives can be neutralised completely because of outright collusion between board members to manipulate events for their own advantage. In writing about 'Games Directors Play', Tricker (2009 p244) pointed out that, 'two or more members of the board [may] conspire together to influence a board decision.'

Tricker's observations are shared by Gomez-Mejia et al (2010 p125) who suggested that, '... board members, just like executives, indulge in self-serving behaviours and often receive hefty fees and perks that cannot be justified on any rational basis.' Similarly, Paredes (2004, cited in Brown et al 2009 p3) argued that 'huge executive compensation packages often amount to little more than corporate looting and that huge CEO pay reflects a board of directors that is shirking its responsibility by not exercising due care in overseeing and negotiating executive pay packages'.

The question about the true nature and effectiveness of the role of non-executive is certainly an interesting one and will be discussed in more detail in Section 7.3.3. If the independence of non-executives is questionable, then should one not also challenge, or at least query, the independence of those who actually provide the market data and develop the pay packages of executives? The role of remuneration consultants will be examined next.

6.3.3 Independence of external advisers

Most, if not all, FTSE 100 companies seek advice from remuneration consultants (often more than one firm) to help manage their executive pay affairs. Their activities include developing business and pay strategies, determining the structure of pay, designing long term Incentive and annual bonus plans, drawing up service contracts, formulating the appropriate competitive market level, attending remuneration committee meetings, drafting remuneration reports, deciding on succession planning arrangements, as well as other firm wide human resources policies and practices for general employees.

If there are many pressures on non-executives for them to conform to the board's wishes, and for them to ignore compliance trouble-spots, one would agree that the picture is no different as far as external advisers, and remuneration consultants in particular, are concerned. Listing rules and governance regulations such as those set out in the Directors' Remuneration Report Regulations (2002) require companies to name these advisers and described clearly the level of their involvement.

However does this have any impact on their behaviour? Remuneration consultants are hired by the board to serve on remuneration committees, but they often have close relationships with the executives (CEOs and finance directors in particular) especially since external advisers used to be appointed by executive directors until recently. Whether the new 'arm's length' recruiting approach is sufficient to negate existing personal relationships is undoubtedly questionable.

Such consultancy work is a lucrative source of business and consultancies naturally wish to be re-appointed year after year. Arguably, one of the most effective ways for them to gain repeat business is to do what pleases the company (their client) which may make it all the more difficult for them to act in a totally impartial manner. As far as advising FTSE 100 companies is concerned the industry is dominated by a handful of firms (see Footnote 6). Together they constitute an oligopoly, just as in accountancy where there are four big firms who dominate the market.

While most FTSE 100 companies differ in terms of products and services and the markets they serve, it appears that the consulting firms have figured that it is in their interests to devise common remuneration strategies which they can sell 'off the shelf' rather than re-inventing the wheel. Arguably, it is less costly and less time consuming for consultants to offer more or less the same advice to all clients. Moreover, the advice and services provided by these firms are

rarely, if ever, challenged by governing bodies because they are supposedly hired by the independent remuneration company and are named in the remuneration report.

It seems that Tricker was not merely being cynical in observing that, '...inherent in agency theory is a philosophical, moral assumption about the nature of mankind. The theory assumes that people are self-interested not altruistic. They cannot be expected to look after the interests of others.' (Tricker 2009 p222).

Based on the foregoing discussion, it seems one has good grounds to accept Tricker's proposition and argue that all directors, executives and non-executives, independent or otherwise, cannot be trusted - in other words, agency conflicts are therefore virtually inevitable; not just between executives and shareholders but among everyone. So the idea of using non-executive as an insulation and to represent the interests of the shareholders is quite possibly flawed. To illustrate the irony of the situation, here is a piece of interesting data:

According to a survey conducted by KPMG in 2010, the median fee for non-executive chairmen among the FTSE 100 companies rose by 21% which was considerable. The pay (or 'fees' as it is commonly called) of non-executive directors rarely makes the headlines but maybe more attention should be paid to the way non-executives are remunerated which might just give us more clues as to whether the board is (and can be) actually well-placed to do serve the interests of shareholders. Much food for thought is presented below:

- Could a 21 per cent fee increase in 2010 be justifiable when one of the main criticisms regarding executive compensation is the continually widening pay gap between the top and the rest of the company?
- Typically, non-executive directors (including senior independent directors, non-executive deputy chairmen and non-executive chairmen) receive not only an annual basic fee, but also additional fees for chairing or being a member of a subcommittee (e.g. audit, remuneration, health and safety, risk, corporate governance, to name a few). In many cases, the company will cover travel expenses and offer other benefits and perquisite to their non-executives too.
- The compensation package and levels are set by the same group of consulting firms that work alongside Remuneration Committees in determining how senior executives (as well as the general employees) are rewarded.

Despite the many potential and actual weaknesses of agency theory, the above discussion shows that the theory has, nonetheless, helped us to acknowledge that while the separation of ownership and control problem does exist, a governance model that depends quite so heavily on the board and external advisers may not work as well as anticipated because of the complexities of multiple agencies. It has also helped understand, at least partially, why interventions such as increased monitoring by non-executive directors, 'outsourcing' the pay setting process to supposedly impartial experts through the remuneration committee and enhanced disclosure requirements, have not quite achieved the desired effect.

All in all, it may be necessary to first re-consider whether it is realistic to expect non-executives and advisers to act truly 'independently', after which perhaps one will then be in a better position to determine the efficacy of the current approach of having the board holding the key to achieving good corporate governance.

6.4 Discussion from a managerial power perspective

The multiple agency dilemma discussed above is further complicated by the issues raised in managerial power theory. In essence, managerialists argue that executives are able to, directly or indirectly, influence board decisions, including the pay setting process, by exerting 'power' towards the non-executives (Brown et al 2009).

The background and assumptions of managerial power theory have been outlined in Section 2.2.2. Of particular relevance to interpreting the findings at this point include two specific issues: company size and board effectiveness.

6.4.1 Company size

As noted in the discussion on growth and investment opportunities in Section 2.2.2.3, executives who possess the necessary information and power are often driven to increase the size of the company, sometimes even at the expense of profits and the organisation's long term health. In a recent text, Gomez-Mejia et al (2010 p125) observed that, 'managerialists impute two main motives to the CEO's "sales maximizing" behaviours. First, expanding scale of operations enhances the visibility of the firm. This promotes the CEO's prestige, appealing to his or her ego needs (Marris 1964; Chatterjee and Hambrick 2007). Second, firm size may be used by executives and hired consultants to justify higher pay at the top (Dyl 1988; Tosi et al 2000).'

In addition, as size increases, so does the degree of complexity of the company, making it more difficult for the board to perform its monitoring and control duties effectively (Smith and Watts 1992).

This issue has been summed up concisely by Hengartner (2006 p60), '...research on executive compensation attributed the relationship between firm size and CEO pay to a manifestation of managerialism. In this posture, firm size rather than performance, is the main predictor of executive pay, because greater size offers the executive several advantages: more power and prestige, less pay risk (because the incumbent has more control over firm size than performance), less employment risk (since firm size provides a buffer against business cycle effects), and a legitimate means to justify more pay at the top.'

With these factors taken into account, it becomes clearer as to why empirical research consistently finds company size to be the prime determinant of executive pay, and the present study is no exception.

6.4.2 Board effectiveness

Another important factor raised by managerialists which seems to help explain why the governance structural mechanisms devised to monitor executives more closely do not appear to reach their full effect is that many boards are actually ineffective in keeping executives, especially the CEO, in order. And rarely do companies have any form of board evaluation system in place either (Bebchuk and Fried 2004; Minow 2008a - cited in Gomez-Mejia et al 2010). This issue has been explored at great length by Bebchuk and Fried (2004) who questioned how well can the board perform their duties. In their view, the connections between the CEO and the company's 'nominally independent' directors are created through 'The social and psychological factors of friendship, collegiality, loyalty, team spirit and natural deference to the firm's leader . . .' (Bebchuk and Fried 2004 p43). Nowhere is this argument regarding board effectiveness more evident than in the determination process of executive pay, a view shared by many, including Herman (1981), Fierman (1990), Boone et al (2007), Lublin (2008) and Gomez-Mejia et al (2010). Some representative quotes are presented below:

'The people who set the CEO's pay ... the compensation committee ... always conflicted, usually co-opted ... they have the tricky task of setting salaries for their peers, who more often than

not, are their friends. . . . The CEO, whose pay the committee sets, sits on both sides of the table.' (Fierman 1990 p5 and p66, cited in Gomez-Mejia et al 2010 p127).

'Aggressive boards determined to rein in management's clout and rewards remain the exception rather than the rule. Pay committees too often take away with one hand and give back with the other.' (Minow 2008a pR2 Wall Street Journal, cited in Gomez-Mejia et al 2010 p127).

'Compensation committee leaders feel torn between pleasing investors and pleasing the top brass.' (Lublin 2008, cited in Gomez-Mejia et al 2010 p127).

The considerations discussed above in relation to the findings of the present study support the view that executive pay is not as strongly correlated to performance as agency predicts because of the power of executives to frustrate the intentions of governance structural reform efforts.

Even more interesting is the finding that the pay-performance link for the CEOs is in general comparatively weaker than the other executives (Finding 1 in Table 19). This seems to suggest that the CEO tends to possess even greater power than other executive directors to escape the restricting effects intended by the governance mechanisms related to improving the board monitoring function.

One possible explanation for this finding could be related to the effects of outside connections and the external labour market on executive power as outlined in Section 2.2.2.3. That discussion provided evidence that the greater the external social ties one has, the more likely and more opportunities he has to find a new job (Wegener 1991; Jensen and Zajac 2004; Brown et al 2009). And of all the directors, 'the CEO is typically the most powerful member of the corporate elite' (Jensen and Zajac 2004, cited in Brown et al p3) which means that he or she tend to have the greatest power in terms of the ability to exercise the option to resign (Brown et al 2009 p3). Not only does this observation help explain this finding (Finding 1, Table 19), but indicates that remuneration committees and compensation consultants should take into account the increased influence and power of CEOs when developing service contracts and remuneration arrangements - to mitigate the effects both of CEOs using their power to grow the company without justifiable reasons and use the external labour market as a threat to drive up their own pay.

This part of the discussion has provided arguments in support of the literature and the research findings to attempt to explain why the intention of improving the monitoring function of the board through changes to board structures has not been as successful and straightforward as expected. However, internal structural mechanisms form only part of the equation of what constitutes good corporate governance. The other important element is executive pay - its purpose is to enhance interest alignment - will be discussed next.

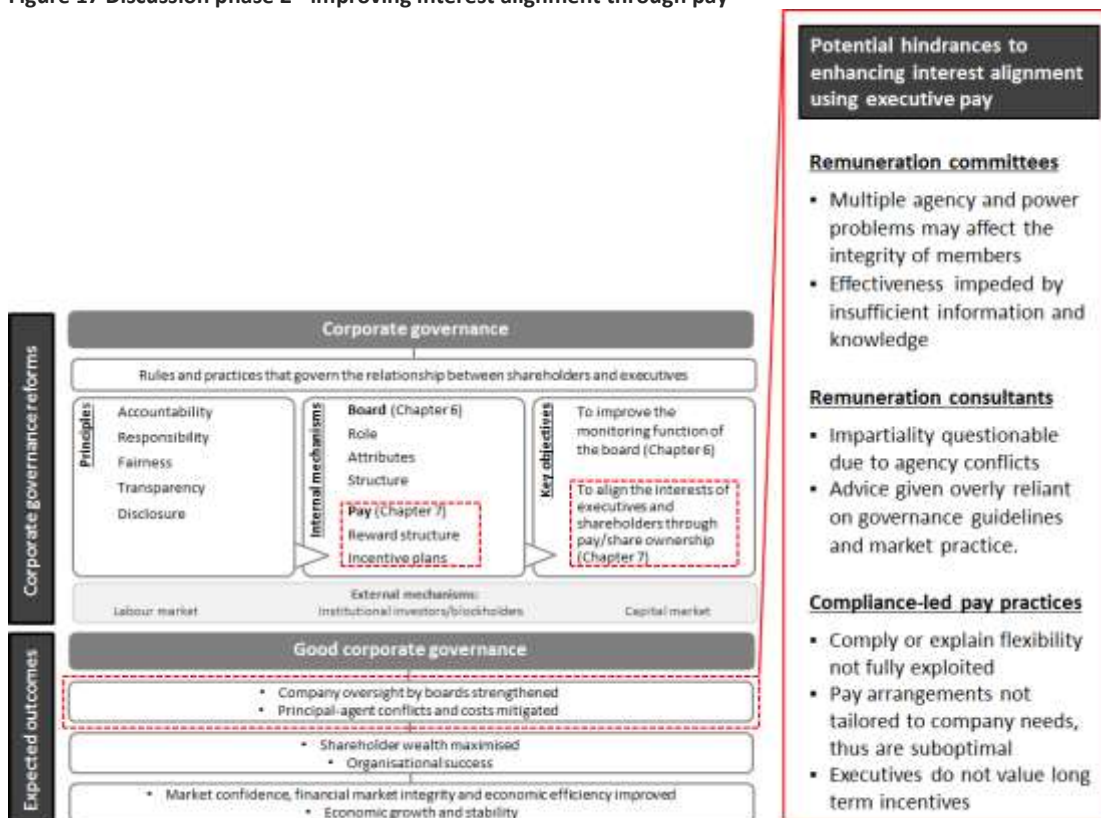
7 Discussion phase 2

Governance objective 2 - to align the interests of executives and shareholders through executive pay

So far discussions pointed out that there is room for improvement for governance interventions and measures to improve the monitoring function of corporate boards, this chapter now moves on to examine whether executive pay has been an effective internal governance mechanism in terms of improving shareholder interest alignment (i.e. Objective 2). As shown in Figure 17, potential issues with specific regard to remuneration committees, pay consultants and the prevailing pay practices that may hinder the effectiveness of pay will be identified in due course. Observations gathered from Chapter 2 and Findings 2, 3, 4, 5, 7, 8, 9 and 10 presented in Table 19 will all be used to aid the ensuing discussions. In the process, an attempt will be made to answer the following questions:

- What was expected to be achieved through the use of pay arrangements (Section 0)?
- According to the literature and results of this study, have the objectives and expectations been achieved (Section 7.2)?
- And what are the rationales for these findings (Section 7.3)?

Figure 17 Discussion phase 2 - improving interest alignment through pay



Source: this author

7.1 The desired effects of objective 2

Agency theory considers executive pay as a key tool in aligning interests and resolving the many issues that stem from the separation of ownership and control. Ultimately, if remuneration is applied correctly, the associated agency costs will be reduced and shareholder wealth will be enhanced.

The various guidelines and codes that have been promulgated in the UK agree that executive pay is an important component of good corporate governance. Pay, in particular long term incentives, is viewed as a vehicle that can help lessen the detrimental effects of the agency dilemma. As mentioned earlier, options and shares awarded to senior executives have been receiving on-going scrutiny from institutional investors, shareholders and the media since they became increasingly popular in the early 1990s. There are several reasons for this:

- Share-based incentives, especially among FTSE 100 companies, often comprised the greatest portion of the total remuneration package of executives and therefore resulted in the highest compensation amounts. Since 2002, shareholder approval was required before adopting any new executive incentive schemes or making amendments to the existing ones. Under present arrangements, shareholders are given an advisory vote at the AGM. The recent banking crisis exposed a number of pay practices that angered the nation, as a result, the Government is at present in the process of developing more stringent governance provisions to regulate the way executives are remunerated.
- Companies continue to place more focus on their executive pay policy and practices, always reconsidering the balance and mix of cash and shares in their pay programmes and the mix between short and long term incentives. This is by and large due to the common belief that executive compensation does matter and can even encourage directors to think and behave like shareholders.
- The design and delivery of share plans have also been undergoing dramatic changes in response to corporate governance requirements and pressure from different constituencies. More specifically, companies have been urged by corporate governance codes to consider a broader range of share incentive vehicles with design features that support a long term business view, increased executive share ownership, a shareholder friendly environment and, most importantly, a much stronger relationship between pay and performance.

UK corporate governance reforms have undoubtedly placed much emphasis on executive pay, but the key question now is whether it has delivered?

7.2 Evidence from the literature and research results

The evidence shows that companies have been taking up the governance advice given to them regarding their pay arrangements. Compliance levels have been high, and relatively few companies have breached the regulations in this respect. But whether these best practice changes actively helped executive pay achieve its desired effects, as an effective governance tool to align interest and reduce agency costs, is not so clear.

The question that most clearly demands a definitive answer is: has pay managed to incentivise executives to make decisions that will not only increase their wealth, but will also increase shareholders' wealth - that is, change the behaviour of executives to drive shareholder value?

It has already been noted earlier that pay is still predominantly driven by company size. More importantly, however, has pay become more related to performance over the past 20 years, during which time the use of long term incentives has grown and plan designs among FTSE 100 companies do largely conform to governance guidelines?

Have compensation levels become less dependent on market movements (e.g. inflation levels) but more on performance? Based on the results discussed in Chapter 4, executive pay in general is not entirely unrelated to performance as relatively significant results have been found between pay and TSR. But it is disappointing to see that:

- Long term incentives do not seem to live up to expectations as the pay element that is supposed to help align interests and drive performance and shareholder value.
- The link between annual bonuses and performance is no weaker than that of long term incentives and performance despite the fact that bonuses tend to be short term focused and partly cash based.
- Similarly, total cash compensation (base salary plus annual bonus) is the pay element that is most strongly correlated to company performance.

- Between 2004 and 2009, the pay-performance link does not appear to show any detectable trend in improvement. So it looks like it is economic movement that still determines how companies perform.

Considering the amount of effort invested by academics, industry experts and governance bodies in examining and promoting the use of long term incentives for senior executives, there has been a great deal of expectation for the linkage between executive pay and company performance to improve over time. Particularly, the prevalence of equity based reward has been increasing not only among top executives but at all levels during the past few decades.

It is now not uncommon for non-executives to be paid in shares and many FTSE 100 companies offer their general employees the opportunity to participate in government subsidised Sharesave schemes. Besides, much literature in the meantime has advocated for long term share incentives over annual bonuses and other form of short term cash alternatives. So much so that pay research that examined only the cash components (i.e. omitting long term incentives) was often heavily criticised for failing to capture the most performance driven element of an executive's pay package, and hence, the results were often deemed less credible. The years following the change in disclosure requirements have seen an increase in pay studies that investigated the effects of long term incentives. As seen in Chapter 2 and the results presented in Chapter 4, no marked changes to the overall picture of pay research findings have been observed, and the pay and performance relationship did not seem to have strengthened during the 2000s. Some possible reasons for this will be discussed next.

7.3 Possible rationales for weak pay-performance link

Why is it that executive pay does not seem to be delivering its promises or at least not as effectively as hoped? The potential reasons that may account for the disappointingly mixed research findings (from both this study and past evidence) will be discussed in this part and are grouped as follows.

- The influence of executives on company performance (Section 7.3.1)
 - Do executives really matter?
 - Are there not too many external environmental factors that are beyond the control of even the CEO?

- The role of executive pay and incentives (Section 7.3.2)
 - Do executives respond to pay?
 - Is it realistic to expect executive pay to deliver so many different objectives?

- The effectiveness of the pay structure and incentive plan design (Section 7.3.3)
 - Are remuneration committees and pay consultants to blame for failing to provide impartial and expert advice that is tailored to the business needs of individual companies?
 - Are the best practice guidelines too specific and too subject to the latest fad?
 - Are pay practices and incentive plan details to compliance-led?

7.3.1 The influence of executives on business performance

Clearly, the widely held assumption that executives in general and the CEO in particular, are normally able to exercise a decisive influence on company performance by reason of the strategic managerial decisions they make, is fundamental to many theories of pay and governance. But how far is this assumption confirmed by evidence?

This question has been under investigation for at least four decades according to Gomez-Mejia et al (2010). As long ago as the 1970s, researchers such as Chandler (1977) argued that executives have a great deal of influence over the destiny of their companies, while in the same year, Hannan and Freeman (1977) argued that external factors were the dominant factor. Similarly, Murray (1989) found that executives' contributions to short term performance is almost zero in the food and petroleum industries, but on the other hand that long term performance was influenced largely by the internal effects of management's decisions. This finding can be explained by seeing management's contribution in the short term as being responses to factors emerging from the trading environment outside the company, whereas long term effects originate from within the company as a result of strategic initiatives by the board (Gomez-Mejia et al 2010).

Even prominent scholars such as Jensen and Murphy (1990a p253) suggested in a major study that the 'small observed pay-performance sensitivity seems inconsistent with the implications of formal principal agent model... [because] CEOs are not, in fact, important agents of shareholders . . . CEOs do not matter.' Most recently, Gomez Meja et al (2010 p141) also demonstrated that executives can indeed influence company performance.

In addition to the above, there has also been recent research (Loomis 2009; Parloff 2009) into how executives' decisions affect the performance of companies in certain sectors of the financial services market, following the banking crisis of 2008 (Gomez-Mejia et al 2010). In general, the findings tended to indicate that much of the economic upheaval may be attributed to poor decisions made by board executive directors and ill-conceived pay plans.

Broadly, evidence appears to suggest that executives can indeed one way or another influence company performance. This view necessarily underlies the fundamental proposition that there is indeed a point in making efforts to link executive pay to company performance. However, the research results have shown that the prime determinant of executive pay continues to be company size. So while it is possible for executives to improve performance by their strategic choices, one can argue that perhaps it is easier and more preferable for them to focus on increasing the company's size in order to maximise their own remuneration. In addition, it is also worth noting that when compensation consultants review or set the pay levels for senior executives, the size of a company (whether in terms of sales or market share) is a key factor in the benchmarking exercise where the ultimate 'competitive' rate for each executive is measured. While there are justifiable reasons that executive pay should reflect the size and complexity of the company⁷, what continues to frustrate researchers is the seemingly simple yet unresolved question: 'Does executive pay reward top management's ability to expand corporate size or to increase profitability' (Gomez-Mejia et al 2010 p157).

This question, coupled with earlier discussions about executives inclining to increase company size, further underline the importance of taking into consideration managerial power when tackling the issue of interest misalignment - whether through governance mechanisms related to board structure and increased monitoring or the use of executive pay.

7.3.2 The role of executive pay arrangements

The above discussion shows that in order to improve business performance (not just to expand in size), it is crucial for companies to have the instruments in place to encourage executives to bring about a win-win situation in which both themselves and the shareholders benefit financially. Pay and incentive plans are the tools that have traditionally been used drive this

⁷ *Measure of company complexity: the overwhelming majority of FTSE 100 companies have international operations. Due to the need to compete for executive talent in the global market place, their view of executive compensation will be global rather than merely national and is likely to reflect in much more generous short- and long term incentive opportunities often found in overseas economies such as the United States, resulting in higher total remuneration levels (Hengartner 2006).*

result. However, before beginning the examination the role of this tool, it is important to try to determine whether executives actually are motivated by pay. Is money the carrot that we should be dangling in front of executives to induce the desired behaviour and improve their performance? Moreover, is it realistic to expect executive pay to deliver the great many different goals that are expected of it?

A brief review of the literature has revealed much evidence that monetary reward does motivate executives somewhat (Berrone and Gomez Mejia 2009; Mathieu and Zajac 1990, Hambrick et al 2008). Interestingly, as noted by Gomez-Mejia et al (2010), the literature also indicates that the structure of top management's pay compensation package often has an effect on their decisions regarding:

- Capital investments (Larcker 1983; Bergman and Jenter 2005)
- Mergers and acquisitions (Grinstein and Hribar 2004; Wright et al 2003)
- Accounting choices (Dyl 1988)
- Research and Development expenditure and efforts to innovate products and services (Hoskisson, Hitt and Hill 1990; Makri, Lane and Gomez-Mejia 2006; Balkin, Markman and Gomez-Mejia 2000)
- Dividend policies (Fenn and Liang 2001)
- The company's overall strategy (Dow and Raposo 2005)

However, Gomez-Mejia et al (2010 p161) also identified that, somehow, not many companies make their executive pay 'contingent on strategic decisions that will eventually impact on performance.

All in all, much of the literature argues that CEOs and other board directors do respond to monetary rewards. However, there is evidence to suggest that while necessary, money alone may not be a sufficient condition to motivate executives in the boardroom. A recent survey by PricewaterhouseCoopers (2008 p26-27) interviewed the CEOs of some of the largest UK public companies questioning their views on financial rewards and the key findings are set out below:

- The majority of participants regard financial incentives as important as long as a minimum threshold is met, but not necessarily of critical importance, to business success.
- Money is considered as a measure of success, its social value is as important as its purchasing power. As one of the CEOs put it, '...senior executives, competitive by

nature, want to know how they are doing relative to their peers. Earnings are an obvious way of measuring this, a proxy for wider measures of success.'

- Only a small number of executives are primarily motivated by potential monetary gain. Instead, it is found that executives are commonly driven by:
 - A sense of achievement and being valued
 - Being part of a 'successful' team where they are in tune with the organisation's values
- Other factors that are perceived as important include fairness power and status.

Arguably, these considerations seem to provide a potential explanation for why top executives are often willing to waive their bonuses or freeze their base salary in the knowledge that the payout amount and their entitlement actually makes them appear more 'powerful' if they publicly relinquish it. Many cherish this power to forego what it rightfully theirs.

While executive remuneration as a whole forms a key part of governance codes, much of the expectations has been placed specifically on long term incentives. This is largely due to the fact that of all the different pay elements, agency theorists and governance reformers have been vocal in pushing for long term Incentives in the expectation that increased share ownership will encourage executives to think more like the owners and become more focused on the long term rather than on short term gains. However, in practice, how are long term incentives actually perceived by the recipients (i.e. the executives themselves)?

Growing evidence from academic research as well as practitioner and business press argues that long term incentive plans are an ineffective way to motivate senior executives (Buck et al 2003, Pepper et al 2012, PricewaterhouseCooper 2006, The Sunday Telegraph's Executive Pay Report 2010). This is partly because, as suggested by Pepper et al (2012 p13), 'the financial cost of LTIPs [long term incentive plans] is greater than the value perceived executives.'. This observation is consistent with that of Buck et al (2003). These studies have demonstrated that factors such as risk aversion, time discounting and uncertainty aversion can significantly affect the way executives assess probabilities and value of their long term incentive awards.

Further, PricewaterhouseCooper (2008) has also found that executives in general believe long term incentives to have failed to meet the objectives of interest alignment. Among reasons given, the most commonly cited was the complexity of many long term incentive plans, and calling them 'arbitrary' (p28). On the other hand, short term incentives (annual bonuses) were generally seen as very effective by executives and non-executives alike. Participants described

them, as having much better 'line of sight' meaning that the connection between successful actions on their part and the reward gained is more obvious. In addition, short term incentives are typically paid in cash within a 12 month period of achieving the relevant performance targets, and this immediacy increases the value of an award in the eyes of executives. This particular point, together with the finding from this study that annual bonuses appear to be at least as performance-linked as long term incentives (see Finding 4, Table 19), calls into doubt the effectiveness of not only long term incentive plans but also the pay structure of senior executives, especially the balance between long and short term incentive rewards.

The discussion so far has established that executive pay does matter and serve many purposes. Apart from remunerating and motivating executives, it is expected that a pay package will play a key part in attracting and retaining the best talent and, above all, drive the desired behaviours to align interests. In addition, a great deal of emphasis has been specifically placed on incentive plans. In particular, much has been written about how these plans should focus participants on the company's operational and financial priorities in order to hold executives accountable to results, which, in turn, should maximise shareholder wealth in the long run (Chingos 2004). If all this is not enough, every aspect of executive pay should also be compliant with relevant governance regulations and governing entities. Is there a possibility that we might just be expecting too much from executive pay?

With the aim of helping companies make the most of their executive pay arrangements, a considerable number of measures have been instigated by governance bodies. Pay related best practice recommendations can be found in almost every governance guidelines. And as already mentioned, companies have tended to be compliant with governance codes, but then how does it come about there is as yet no significant evidence indicating that the connection between executive pay and company performance has improved during the reform period?

The results from this study suggest that while some positive links are found between pay and TSR, long term incentives and total compensation are not showing stronger correlations than components that are not and do not include long term share based rewards such as annual bonus and total cash. Equally disappointingly, the overall pay-performance relationship does not seem to be strengthening over the five year study period (2004-2009) even with the adoption of some considerably robust governance measures the decade before (see Finding 5, Table 19). Any material changes to the link appear to be due to market movements

What then has gone wrong? The government, regulatory bodies, shareholders, institutional investors, remuneration committee members, pay consultants, economists, academics and agency theorists all believe that executive pay can help alleviate the agency dilemma through its motivational value to drive the desired behaviour which will translate into improved company performance and shareholder value. So what is not quite right in the equation?

Are we expecting too much from pay? Is it reasonable to expect pay to be arranged in a way that is both effective and compliant to governance codes? And why is pay still generating so much bad press day in day out? It may be that the answer to this question is affirmative if corporate governance is not flexible, but that the 'comply or explain' model should provide the flexibility sufficient to make the system workable. These questions clearly demand answers. However, before being in a position to do so we need to investigate further the design of pay structures and plans to provide additional clues.

7.3.3 The effectiveness of the pay structure and incentive plan design

This part of the discussion sets out to question whether the tenuous relationship between executive compensation and company performance could be due to issues with the pay structure and the designs of incentive plan. How well have remuneration committees and pay consultants performed their role? Have they managed to provide impartial and expert advice that is tailored to the business needs of individual companies? Or could the failure be accounted to the best practice guidelines being too specific and too subject to the latest panacea, leading to actual pay practices and incentive plan details changing too lightly? A discussion of these questions may provide some clues as to why TSR is the only measure that shows positive links to pay.

In general, media coverage of executives' pay is often negative and blame is placed on the executives themselves. However, unlike the past, CEO and executives are not involved in deciding on their salary levels or designing any of the incentive plans. Numerous governance measures have been put in place ensure that executives have no say on their own pay. The responsibility of pay setting lies with the remuneration committee. Expert advice is often sought from remuneration consultants to assist with the development and implementation of various pay arrangements. It is typically the chairman of the remuneration committee who is responsible for hiring the consultants, determining the company's pay strategy and policies, and ultimately signing off each and every element of the pay packages.

Unlike executives, one rarely hears media questions raised about the integrity, the competence or the motives of those who actually devise the arrangements that lead to payouts. Hence, while discussing the effectiveness of FTSE 100 pay structures and incentive schemes, some rarely asked questions will be considered as well:

- Are remuneration committees and pay consultants at fault? (Section 7.3.3.1)
- Are the best practice guidelines too specific and too changeable? (Section 7.3.3.2)
- Are compensation practices too compliance-led? (Section 7.3.3.3).

As corporate governance systems have become more complex over the past two decades, so too have pay programmes and incentive plans. Many factors can affect their effectiveness. Nevertheless, as mentioned before, a myriad of measures have been introduced to enable companies to develop and implement pay arrangements that are unbiased, governance friendly and in alignment with their business goals. These arrangements include two key provisions:

- All pay related decisions are to be made by the remuneration committee, which is made up of independent non-executive directors only, to ensure that executives are not involved in the pay setting process and have no influence over their own pay - that decisions are taken 'at arm's length' (Cadbury 1992; Greenbury 1995).
- Expert advice should be sought from remuneration consultants whose appointments are made directly by the remuneration committee (not the CEO or other executive directors). Their names, and the service they provide, have to be noted in detail in the remuneration report (Directors' Remuneration Report Regulations 2002 / Statutory Instrument 401 2008).

The various pay related provisions (refer to Chapter 2 for details), coupled with the 'comply or explain' approach should allow flexibility and encourage consultants and remuneration committees to use their discretion to adapt best practice guidelines to suit individual company needs and to implement effective pay programmes. But, as noted earlier, it appears that in complying with these regulations pay packages and incentive plans have all become very much the same, rather than being adapted to individual needs. This is not at all the aim of the system, which is to provide flexibility.

At the moment, there is clearly still much disquiet among the different stakeholders about the current state of affairs regarding executive compensation (PricewaterhouseCoopers 2007 p3). For instance, executives are not pleased with the fact that the incentive plans being devised are not closely enough connected with the factors they can control; that they are being blamed for being awarded a bonus or long term incentives that they earned, not designed by them, but approved by the board.

The board is not happy because they are being cast in the role as 'policemen' instead of constructive partners. Remuneration consultants, too, are unhappy and feel unjust for being blamed for being the cause for ratcheting pay through providing inflationary benchmark data. In practice, consultants simply provide the data and information; remuneration committees decide what is suitable for the company. Needless to say, shareholders are disgruntled about executive pay not being driven by business performance. Last but not least, general employees and the public also are angered by executive pay and found it distasteful, in particular, they are outraged by the disparity in pay between senior executives and average workers.

This last point about the salary gap between the top management and the rest of the employees is one of the most contentious sources of discontent with executive pay as far as the media and the general public are concerned. While this issue is not the focus of the present discussion, and arguably, a separate matter of contention altogether, it is nevertheless important for it to be addressed, even just briefly. This is because it is a subject that tend to always attract a great deal of attention from the media and politicians, but more than that, because it highlights that fact that pay not being performance linked is only one half of the executive compensation problem.

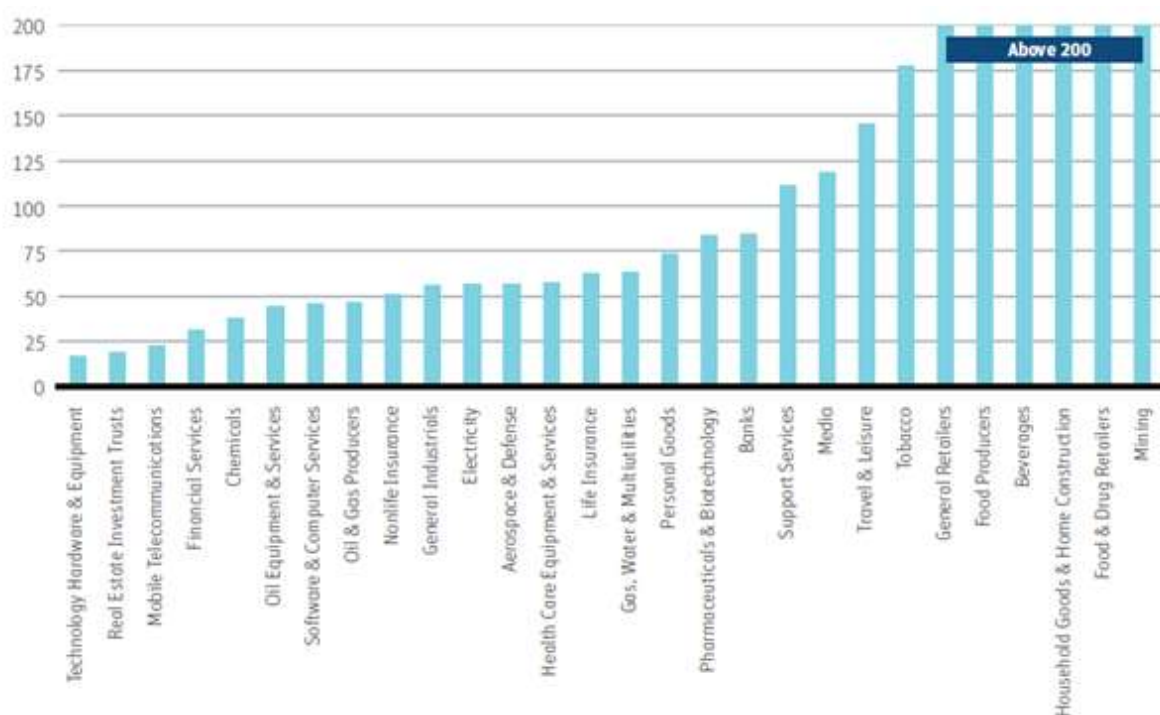
Currently, the disclosure regulations require companies to explain how they have taken account of pay and conditions in the whole company when setting the remuneration of the executive directors. But there seems to be no agreement as to exactly what information a company must disclose. Some reformers are suggesting that companies should disclose the ratio between the CEO's salary and that of the rest of employees. Others go so far as to say that this ratio should be capped as has been suggested in the public sector (Hewitt New Bridge Street 2010 p5).

One of the difficulties with disclosing information and providing justifications on the relationship between executive pay and workforce pay concerned with drawing valid comparisons between industry sectors. According to Hewitt New Bridge Street, in their Report

on FTSE 100 Director's Remuneration (2010), there is no 'one-size fits all' solution as to what is the appropriate pay relativity.

'As shown in [Figure 18 Ratio of CEO pay to average employee pay in 2010] below, the relationship between CEO and average employee pay varies enormously between sectors. This does not mean that one sector 'overpays' its CEO compared to another. Instead, the discrepancies are more likely to be driven by the fact that the average worker in one industry will have very different skill requirements - and therefore earning potential - than one working in another industry.' (p5)

Figure 18 Ratio of CEO pay to average employee pay in 2010



Source: Hewitt New Bridge Street Report on FTSE 100 Director's Remuneration 2010

Solving this problem will not solve the problem of how to link executive pay and performance. But current thinking on corporate governance reforms, especially in the media, appears to see these two issues as one thing and tends to lump them together when tackling the overall problem under the heading of 'executive pay'.

Other than improving the connection between pay and performance, the responsibility for disproportionate differentials has increasingly been placed on the shoulders of remuneration

committees. Meanwhile voices from within the governance community have also been raised to express concern of their effectiveness. The question of the 'independence' of non-executive directors has already been raised earlier; and now the discussion resumes, focusing largely on the role of remuneration committees, the aim of which is to shed light on the part they play in the seemingly never-ending executive pay fiasco and how well placed are they to improve governance in the boardroom.

7.3.3.1 The role of the remuneration committee

As discussed in Section 6.3.2, a key question here is whether a remuneration committee can be truly independent. Can one be certain that all members will put their personal interests aside and have the shareholders' best interest at heart throughout their tenure? It appears the answer to this question is in the negative. UK corporate governance has relentlessly sought to reduce the dominance of top management by increasing the number of independent directors on boards and removing executive directors' involvement in any remuneration committee business.

However, Clarke et al (1998) presented evidence that nearly half of company chairmen surveyed in the wake of the Hampel Report (1998) thought that bidding up of pay occurred. Ezzamel and Watson's (1997) also suggested that a 'cosy collusion' exists between executive directors and non-executive director who happen to sit on each other's remuneration committees and thus are able to bid up each other's earning. As recent as 2007, Filatotchev et al (2007) continued to find that directors are actively colluding with each other over pay. If this is the case, then the concept of the remuneration committee is clearly failing as an agency control mechanism (Froud et al 2008).

It seems that in many respects, the board, including the remuneration committee, is a less than perfect solution as a primary safeguard of governance, i.e. to prevent another Enron or the 2008 banking crisis from happening again in the future. Yet, at the same time it is almost indispensable, until a better solution is found. Would it be fair to suggest that, currently, one can at best view a remuneration committee as an effective insulation layer between executives and the pay setting process - it is there to make it more difficult for executives to influence their own pay - rather than to devise a pay formula that is foolproof?

One of the key challenges that remuneration committees face is about managing discretion - the committee should satisfy itself that all the advice is delivered with integrity and is unfiltered

which may not always be straightforward as pointed out earlier in this discussion (PricewaterhouseCoopers 2009 p49). Perhaps tougher measures are required to hold non-executive directors more strongly to account and formal process should be in place to evaluate the performance of each of the subcommittees. And would it really change behaviour?

Whether a remuneration committee can maintain independence at all times is difficult to judge but as reported by PricewaterhouseCoopers (2009 p49), most committee members do take their responsibilities extremely seriously and shareholders are happy with their work. That said, referring back to the discussion in Section 6.4 of the view of managerialists regarding how senior executives (CEOs in particular) can influence the pay setting process through the various forms of 'power' that they possess. If this view holds, then perhaps one of the ways to measure 'independence' would be to evaluate the level of willingness of remuneration committee members to challenge the CEO and other executives, as well as remuneration proposals brought to them by pay consultants.

It is therefore essential that remuneration committees equip themselves for a more proactive and less reactive approach to executive compensation. One could argue that this is more important than ever today when executive pay is once again dominating the headlines and shareholders as well as the general public increasingly view governance about remuneration as a visible signal of the quality of governance more widely in the board. As suggested in the Executive Compensation Review (PricewaterhouseCoopers 2009 p51-52):

'Perhaps most challenging, remuneration committee members need to be prepared to have difficult conversations about pay and performance with executive management. The tolerance for (constructive) conflict needs to rise. While this may seem challenging, the stakes are high. Failure to rebuild trust in the remuneration process may lead to regulation, with all the unintended consequences that could bring.'

The above discussion has highlighted that there are various ways of improving the effectiveness of remuneration committees. There is clearly evidence pointing to the need for companies to implement a formal board evaluation system that will enhance the transparency of the decision making process of the board as a whole and each of the subcommittees. This will allow shareholders and governance bodies to hold them accountable for their actions should such a need occur need in the future. At the same time, there also seems to be the need to review external advice requirements to increase the accountability of compensation consultants to

encourage them to work more closely and, arguably, more responsibly with remuneration committees to make decisions that fit individual company's business.

7.3.3.2 The role of remuneration consultants

While it is the responsibility of remuneration committee to decide on how the executive team is rewarded, many of their decisions are based on the information and professional advice presented to them by pay consultants who are experts in the field. These external advisers are supposed to have the technical knowledge to create pay programmes that serve their purposes in helping to improve the performance of their client organisation, but more than that, they also provide salient data and information as well as valuable analysis (Baker, Jensen, and Murphy 1988; Bebchuk and Fried 2004; Conyon et al 2009a; Murphy and Sandino 2009).

Evidently, consultants do play a considerable role in shaping UK executive compensation, especially among FTSE 100 companies. Bender (2007 p1) argued that by providing 'proprietary survey data on pay in comparable companies, on which the remuneration committee can base its decisions...[consultants are in effect influencing] the choice of comparators, and thus the level of pay'.

Similarly, Baker and Anderson (2010 p288) suggested that if their responsibilities are carried out effectively, 'they [pay consultants] can form part of an optimal governance structure by providing information that can reduce agency costs and help boards arrive at the best compensation contract to offer the CEO on the behalf of shareholders'.

However, executive pay is not delivering though. The most frequently voiced criticisms are summed up below:

- 'Consultants are responsible for high levels of CEO pay and their poorly designed compensation packages include too many perks, hidden benefits such as golden parachutes or lucrative pension deals, and non-demanding performance criteria.' (Baker and Anderson 2010 p286).
- '... consultants do fail, too often by focusing too much on market practice, rather than on what is right for the business' (PricewaterhouseCoopers 2007 p3).

- '[executive compensation] ...did not go out of control simply through some random process; it went out of control because of the actions—or inactions—of a number of parties. The first culprits in what will be a litany of culprits are compensation consultants.' (Crystal 1992 p9).
- Consultants suffer from conflicts of interest because they often supply additional services other than pay advice to client companies, such as actuarial or benefits advice (Bebchuk and Fried 2004; Waxman 2007; Baker and Anderson 2010).
- 'Another function of the consultant is to legitimise the committee's decisions in an area which is often contentious. However, this ability to legitimise relies to some extent on the consultants' independence from the board and the committee. This can be at odds with a growing public belief that they are influenced by company executives, and not totally independent.' (Bender 2008 p1).

Clearly, remuneration committees and consultants are charged with many important responsibilities and duties. It is becoming all the more challenging for them to get the balance just right during a period when new best-practice governance recommendations are constantly surfacing. One of the major concerns is about too much focus being placed on governance codes while too little on actual business needs of individual companies.

This potential problem may be stemmed from consultant's desire to maintain a high-quality reputation (Armstrong et al 2008; Cadman et al 2008; Conyon et al 2009a; Murphy and Sandino 2009). As Baker and Anderson (2010 p290) succinctly put, 'a consultant exposed for colluding with management or recommending lucrative pay deals for poor performance will suffer a loss of reputation. Maintaining and developing a good market reputation is therefore important for the consultant and ameliorates the tendency for consultants to side with management over shareholders. The effect of maintaining a good reputation works against finding a positive correlation between CEO pay and conflicted consultants'.

All considering, it seems a key question for those formulating governance regulations in future will be: have pay practices become too compliance-led? If so, are remuneration consultants to blame? After all, they are supposed to use their expertise and present fresh perspectives and to challenge their clients' thinking. Perhaps it is the complacency of remuneration committee members that led to the lack of linkage between pay and performance? Or could it be that the provisions contained in the governance code and other guidelines have become overly specific?

7.3.3.3 Have pay practices become too compliance-led?

The principles-based ‘comply or explain’ governance model adopted in the UK is designed to allow companies the freedom to develop compensation programmes that are tailored to the business requirements and that align executives with the particular value creation imperatives of the company. However, it appears that executives generally feel that incentives have become too complex and prescriptive, and are not aligned to the business strategy or within their control. As a consequence, many long term incentive plans are seen as ineffective in terms of driving achievement of the company’s strategy or changing behaviours. Worse still, executives often perceive incentives simply to be a lottery, with little motivational effect. A recent study of the attitudes of senior executives and non-executive directors found that long term incentive plans are failing in their core purposes of motivation and retention (PricewaterhouseCoopers 2008 p52-56).

This problem could be attributed to there being a tendency to make decisions based largely on market practice with insufficient emphasis on a company’s own particular circumstances (PricewaterhouseCoopers 2009). As discussed in the earlier, both remuneration committees and external advisers are in one way or another responsible. However, one can also argue that shareholders themselves should take some of the blame for this as well. A recent executive remuneration survey conducted by KPMG (2010 p5-6) reported that:

- ‘...[shareholders] have tended to outline their preferred approach and encourage companies to follow this, and there has been a degree of unwillingness to accept arrangements which are different’.
- ‘...some institutions showing reluctance when approached to discuss exceptions [to codes of best practice]’
- ‘...many remuneration committees exercise caution in the last couple of years, as the wider economic environment has been of prime concern’.

Despite the UK Corporate Governance code being based on a ‘comply or explain’ framework, it is clear from my data sample that compliance with the code among FTSE 100 companies is widespread and most are happy to settle for what has become the norm, with little objections from remuneration committees, consultants or shareholders. Complying with published

guidelines, while 'safe' and 'hassle free', should not be considered as the fail-proof first line approach simply because the recommendations set out in the corporate governance code are supposedly 'best practices'.

An excessive reliance and focus on governance guidelines can turn the pay setting process into a box ticking exercise which defeats the principle of the 'comply or explain' approach. It is therefore paramount for companies to bear in mind that the Code (2010) should be treated as a set of guiding principles, rather than a checklist of absolute and fixed standards.

Another potential problem of being overly compliant is that companies may end up amending their pay practices and incentive plans too readily merely to stay up-to-date with the latest best practice recommendations. Governance guidelines tend to change frequently and in a piecemeal manner, often in response to the latest executive pay blunder. Unnecessary ad hoc changes to compensation arrangements can be perceived as an incoherent approach to pay setting; incentive plans can appear even less relevant to the executives who participate in them, and thus less motivational - something that no company would find acceptable.

It is evident that UK companies have the tendency to adopt pay arrangements (incentive plans and performance measures in particular) that:

- Are compliant with best practice guidelines
- Fit in with the market based on survey data
- Appear to be readily recognisable and similar to those adopted by other companies.

This seems to have led to a lack of variety in compensation practices where pay structures and incentive plan designs have gradually become more standard and less tailored to specific organisational requirements. This cannot be an effective approach as different companies have different needs.

In particular, very different incentive plans are required in different industries and business phases. Many long term incentive plans adopted by FTSE 100 companies appear to be relatively similar (e.g. in terms of performance metrics, target and maximum award levels, and vesting schedule), implying that all businesses are operating at similar points in their business cycles, experience similar market forces and have similar levels of risk which is simply untrue. This

observation may well partly explain why incentive plans are often found in research to be ineffective and do not provide a good link between reward and the long term creation of shareholder value.

How did this situation come about? Under current governance code, companies are required to provide detailed statements on their pay policy and practices in their Remuneration Report. As one can imagine, many of the compensation matters are highly sensitive and could easily attract unwanted attention from not only shareholders but also the media and the general public.

Much effort is needed to prepare explanatory materials and information that meet the all the disclosure requirements set out under the Listing Rules. This task often becomes even more laborious when there are any proposed changes. Decisions to amend existing pay arrangements (including salary increase) or to adopt new incentive plans, all will need to be carefully explained and justified at length to shareholders and in the Remuneration Report.

It is therefore not difficult to see why remuneration committees and consultants are drawn to adhering closely to governance recommendations and put in place market-standard incentive plans. Companies trying to do something 'outside the box' and relevant to their own business can find the hurdles too great to overcome for reasons such as:

- To avoid resistance from shareholders who tend not to care for unfamiliar concepts and practices (for example, the plan design for long term incentive plans favoured by many shareholders has a performance condition based on TSR).
- To prevent facing potential fierce questioning and unwarranted criticism from the public which may lead to bad press for the company, consulting firms and even individual remuneration committee members. Few are prepared to risk their reputation being ruined.
- To keep costs down - purchasing 'off the shelf' products (including incentive schemes) tends to be much less expensive than engaging the services of consultants to devise bespoke pay programmes.

In addition, there could also be other personal reasons for remuneration committee members and consultants to remain reluctant putting in place more customised arrangements, below are a few examples:

- Unwillingness to invest any extra time and effort that may be required.
- Fearful of getting it wrong and be held responsible and accountable for their decisions to do something 'different'.
- Lack of ability or interest to do what is right for the company and to communicate to the relevant stakeholders.

While criticisms related to executive pay have mostly targeted the CEOs in the past, in recent years, there seems to be more widespread concern among shareholders that remuneration committees are not being tough enough and exercise poor discretion that often favours executives. Remuneration consultants have also been accused of being too ready to say that 'shareholders will not have it' (PricewaterhouseCoopers 2009).

Although it is widely accepted that there is no one 'right' approach to remuneration, nor is there a single prescription for improving corporate governance matters, UK companies appear to have a compliance mentality and tend to be over reliant on best practice recommendations and market data, instead of tailored business requirements. As a result, FTSE 100 executive pay practices have arguably become relatively similar in structure and design. Alongside the potential reasons discussed, this phenomenon can also be explained using institutional theory (DiMaggio and Powell 1983; Scott 1995). As aptly raised by Bender (2004 p523), '...companies structure themselves in order to be like other companies, rather than for reasons tailored to their individual circumstances. Explanations given for that include coercive isomorphism... and mimetic isomorphism.'. In the context executive compensation, coercive isomorphic pressures are typically characterised as the set of regulatory requirements within the corporate governance system; whereas mimetic pressures describe the rational strategies of emulation and modelling of pay practices of peer companies that are perceived as good (Riedl 2010 p6).

The above discussion has highlighted that remuneration committees and compensation consultants will have to move away from being too compliance-led when developing policies and practices in order not to affect the effectiveness of incentive plans as a governance

mechanism. Future research might find a stronger connection between pay and performance if more incentive plans are designed to address the specific needs of individual companies. If companies do not change, and continue to do what they have been doing or do what everybody else does, we may face a future of 'suboptimal 'me-too' compensation programmes, disconnected from the business strategy and, consequently, without the power to engage or motivate executives.' (PricewaterhouseCoopers 2005 p27). Rather than continuously revising the governance guidelines in hope of finally arriving at a perfect formula for executive pay perhaps the way forward is, as suggested by Chingos (2004), for remuneration committees to ask some hard questions about their incentive programmes, in particular long term incentives:

- What is their purpose within the package and are they achieving that purpose?
- Are they motivating for executives and influencing behaviour?
- Are they achieving alignment with shareholders?

It is of utmost importance that remuneration committees have a clear idea of the company goals and directions, and communicate this to the consultants who could then help them develop pay policy and practices that reinforce the wider corporate business strategy and reflect good corporate governance all at the same time.

This section has presented several possible explanations as why executive pay has not been as effective in changing behaviour and improving company performance as expected. There are numerous factors that can impact on the effectiveness of a pay programme, many of which are beyond the control of the company and corporate governance. However, as suggested throughout this discussion, there is clearly much room for improvement in terms of the manner in which remuneration committees and consultants carry out their responsibilities, and how pay arrangements can be better structured and designed to deliver the desired results.

7.4 Concluding remarks

During the period under study, 2004-2009, company size continued to be the key determinant of executive pay among the companies in the FTSE 100 index. While executive pay is found to be consistently significantly related to TSR, the same cannot be said about other performance measures where a connection was non-existent or at best tenuous. Disappointingly, despite all the changes in corporate governance over the past two decades, no upward trend has been observed regarding the linkage between pay and performance during the study period. These

findings accord with numerous executive pay studies in both the UK and the US, of other time periods.

It may be relevant to point out that there was an unprecedented level of disturbance in markets, characterised by the failure or rescue with public funds of leading banking and financial institutions such as Lehman Brothers, Merrill Lynch, Royal Bank of Scotland and Northern Rock and others. Many of these organisations were over-expanding in a bull market and, despite their failures, executives continued to receive generous salary increases and incentive payouts which attracted criticism from the media and the public. The string of collapses of high-risk businesses was, in many respects, not dissimilar to the previous high profile scandals such as BCCI almost two decades before - while the nature of the failures was different, they are all the consequence of poor corporate governance. With this uncomfortable sense of déjà vu in mind, one cannot help but surmise that recent cases of corporate malfeasance could arguably be described as the failure of 20 years of corporate governance reforms.

8 Conclusions

The connection between executive pay and company performance in the context of corporate governance attracted my initial attention as a research topic for two main reasons.

Firstly, some fifty years of academic research did not appear to have produced any concrete understanding of the effects of executive compensation nor the relationship between pay and performance. Today, it seems that we are no wiser about the effectiveness and usefulness of pay in motivating executives, in changing their behaviour, or in aligning their interests with those of shareholders. We are, essentially, still uncertain as to what role executive compensation precisely plays in corporate management. In theory, as demonstrated in Chapter 2, the general rationale for using remuneration as a corporate governance measure seems clear and straightforward and academics, policy makers and practitioners alike continue to have high expectations for executive pay programmes - especially long term incentive plans such as performance share awards. In reality, however, the causal relationship between pay and performance is still not well understood and there is still relatively little empirical evidence to establish whether executive pay is effective in driving desired behaviour and shareholder value.

All in all, the literature does not point us to any convergence of viewpoint. The findings are mixed and contradictory, no matter who carried out the research, whether it was conducted in the US or UK, by economists or organisational behaviourists, agency theorists or managerialists - the question remains as baffling as ever, and hence is an important target for greater clarity and understanding.

My second reason for being drawn to this area of research is the continuing occurrence of headline fraud and scandals despite on-going governance initiatives and increased regulations to try to combat issues concerning corporate oversight and board accountability.

Based on these premises, I set out to examine this topical and seemingly ever growing problem more closely, focusing on the UK where literature is scarce, and with several objectives in mind. In this chapter, I seek to review what I have found during the research process and examine how far I have achieved my original goals, before closing with some final remarks.

8.1 Objectives of the study

In the ensuing discussion, the objectives outlined in Chapter 1 are organised into two parts. The first considers executive compensation more generally as a corporate governance mechanism and the second focuses specifically on its relationship with company performance.

8.1.1 Executive pay as a corporate governance mechanism

One of the aims of study was to overcome some of the data-related obstacles that have constrained previous research by taking advantage of recent developments in disclosure. In addition, since the study sampled only FTSE 100 companies, it was also intended to contribute to the current body of research into UK executive pay and other corporate governance practices, which is at present rather scant.

Regarding the available data, I believe that my study has made reasonable use of the information on directors' remuneration now readily disclosed in companies' annual reports and accounts. The improved accessibility of data has allowed me to investigate the 100 largest UK listed companies in a more comprehensive manner by conducting rigorous analyses that captured different aspects of executive pay. More explicitly, I have been able to explore an array of pay and company performance variables over a period of five years and examine the various board roles both separately and collectively to draw comparisons. Few, if any previous studies have examined pay in this depth or this level of detail.

In general terms, my own set of results reflects the inconclusive findings of past literature. What is certain is that company size is still the key determinant of executive pay (Finding 10, Table 19). This finding is what one expects to see since larger companies are more complex by nature, the higher level of remuneration is therefore indicative of merely the increased responsibility associated with the more demanding role. However, the discussion in Section 6.4 has highlighted other, more controversial reasons why directors' remuneration is consistently found to be driven by size - the managerial power perspective argues that executives appear to have the incentive to grow the company to increase their own remuneration. By doing so, they are also making it harder for the board to carry out their monitoring duties - as evidenced in Section 2.2.2.3, managerial opportunism tends to be more prevalent in growth firms (Smith and Watts 1992).

Further, the finding that company size is the only consistently proven driver of pay while, at the same time, there is no firm sign of pay being related to performance, or moving in that direction since governance reforms began some 20 years ago, is a major source of concern for policy-making.

Despite these reservations, UK corporate governance has progressed considerably in many respects since Cadbury (1992). In particular, companies have experienced far-reaching structural and procedural changes, many of which have been concerned with directors' remuneration. For example, unlike the pre-reform era, one can no longer accuse CEOs of setting their own salary levels or constructing the terms and conditions of their own remuneration packages. Public companies' boards have been charged with the responsibility of pay determination for the best part of the last two decades. With the guidance of governance codes of best practice and expert advice given by external compensation consultants, remuneration committees have been delegated to develop equitable, governance and shareholder friendly and, above all, business performance enhancing pay policies and programmes.

However, in line with other recent research, the findings of the present study suggest that the pay-performance relationship has not strengthened measurably over time (Finding 5, Table 19). It may be too ambitious to expect to see an upward trend, because in fact, even the literature that used one year cross-sectional data has not yet managed to provide any distinct indication as to whether a strong correlation actually exists between executive pay and company performance, be it positive or negative. Even in cases where positive results have been observed, the connections were at best tenuous. Despite the changes that governance reforms have brought about, it appears that we are as far as ever from seeing a stronger pay-performance link.

So where does the problem lie? One of the explanations that I have given in this thesis for the problem is that many companies have taken an overly compliance-led approach to governance requirements, including the design of compensation arrangements (Findings 4 and 8, Table 19). In other words, the flexibility afforded by the 'comply or explain' framework has not been fully exploited. One such example is that of the long term incentive schemes among FTSE 100 companies, most of which are somewhat similar in structure and design mechanics (refer to Appendix B).

Why is it still relatively uncommon for organisations to proactively adapt best practice guidelines to suit their specific business needs and circumstances? Why do they choose to forego the chance of using governance mechanisms potentially to improve company performance? Do they consider it too much trouble? Are they afraid of being seen as non-compliant and attracting a bad press? It would certainly be cause for concern if the leading companies were avoiding being innovative in their pay practices merely for fear of falling foul of regulations. The previous chapters (Sections 6.3.3 and 7.3.3.2) have suggested that it could be the external advisers appointed by the board, the pay consultants, who are playing safe. Or who are selfishly opting for the more cost and time-effective option of recommending common pay practices for their clients rather than designing bespoke arrangements tailored to fit.

Equally, evidence has been provided in Sections 6.3.2 and 7.3.3.1 arguing that remuneration committees are at fault, at least partly because, in general, they still lack total independence and members tend to be too wary of rocking the boat for fear of jeopardising their own relationships with management and imperilling their career longevity.

It is evident that both pay consultants and remuneration committees could and should have done more to overcome any coercive and mimetic isomorphic pressures and develop compensation instruments that are more effective in driving performance. Just as there is also much room for improvement in the way corporate boards carry out their other duties. While this study does not aim to establish the causality between executive pay and corporate governance, it is still important to stress that although pay is sometimes viewed as a driver of governance, one could equally argue that governance requirements are determinants of pay which have helped shape the reward practices of UK board directors. Nevertheless, one must recognise that board effectiveness (or the lack of such) is only a small part of the greater problem; so although the recent seismic shift in governance policies was targeted extensively at board structure and processes, all these efforts may prove futile if other fundamental issues inherent in the present governance framework are left un-addressed or poorly-addressed.

The UK corporate governance model, while widely regarded as one of the world's most advanced, is not without some flaws in its conception. First, a core tenet of the current model is that the board should be an independent body capable of providing objective monitoring of management. Therefore, reforms have persistently stressed the importance of having boards of directors that are composed of a majority of independent directors, as well as the value of having key subcommittees - those involved with oversight of audits, executive pay, and nomination of new board members - consisting entirely of independent directors.

Even though all this does seem sound in principle, one could argue that the current approach relies somewhat too heavily on corporate boards, especially when this reliance centres on the frankly unrealistic premise that non-executives possess largely altruistic motives in that they care little for personal gain and serve shareholders unreservedly. Is it not overly ambitious to expect a handful of supposedly 'independent' individuals (i.e. the non-executives) to not only facilitate effective monitoring and bridge the gap between shareholders and executives, but also safeguard the company's long term interests? The most likely answer is yes. It has been established in the preceding discussions that non-executives, despite being deemed as 'independent' are not necessarily unfettered by selfish calculations and bias.

To illustrate, a number of recent studies (Ozkan 2007; Guest 2010; Renneboog and Trojanowski 2010), including this one (Finding 6, Table 19), have generated results that indicate board size has a negative impact on performance which support the argument that problems of free-riding and poor decision-making undermine the effectiveness of large boards. The doubts cast on the independence of directors have prompted me to question seriously the ability of boards and their subcommittees to elicit good monitoring and other oversight requirements.

Due to the aforementioned assumption about board independence, UK corporate governance is concerned predominantly with the agency conflicts that exist between shareholders and management, overlooking many multiple agency issues related to non-executives and other stakeholders. Further, my discussion on the effects of multiple agency conflicts (Section 6.3.1) has underscored the extent of the power that the CEO and other senior executives can exert on the board and beyond. But perhaps because of the overwhelming focus on the alignment of the interests between shareholders and top management, the current framework seems to have neglected the potential problems arising from the influence of the CEO (whether direct or indirect, intended or inadvertent) and thus their impact on the effectiveness of the board and other governance provisions.

My finding that the remuneration of CEO is not as performance linked as that of other directors (Finding 1, Table 19) has only emphasised further the significance of managerial power in the context of governance and the potential opportunities that addressing CEO power may afford. While curbing CEO power alone will not be the panacea for all the corporate governance ills that afflict businesses, it is clearly something in which policy-makers should be taking a closer interest.

A simple starting point would be to make use of the concepts of managerial power and multiple agency conflicts to increase awareness that the board itself cannot be the sole repository of good corporate governance. At present, it appears that a senior executive (often the CEO), as opposed to the board, is blamed whenever any kind of corporate abuse occurs within an organisation. One could argue that this is because the CEO-shareholder agency problem is the only lens through which corporate affairs are viewed. Agency theory predicts - put simplistically - that CEOs are opportunistic and so when a scandal breaks, it must be them and their accomplices who are at fault. In contrast, the effects of managerial power on non-executives or external advisers, and any suggestions that the board and its subcommittees are subject to multiple agency relationships that may affect their obligations to the interests of the shareholders seem to be largely ignored - and have become the elephant in the room. Critical headlines and Parliamentary debates tend to target top management: rarely, if ever, has one seen a remuneration committee chair stepping up to explain the situation - even though it was he or she who set the remuneration levels, approved the incentive schemes and devised the service contracts. Blaming the CEOs alone risks masking the underlying causes and failing to hold other parties accountable for their actions.

In the light of this analysis, it seems reasonable to suggest that when the roles and responsibilities of non-executive director and chair are more widely understood, along with their potential effects, there will be a greater prospect of the board and management working more effectively towards a single common goal - that of serving the interests of shareholders and maximising their wealth.

8.1.2 The relationship between executive pay and company performance

Another key objective of my research was to improve our understanding of the relationship between the remuneration of UK directors and company performance. Specifically, by employing detailed analyses, this study sought to identify important aspects of pay management in governance terms that may help the designing of future reforms of corporate governance. Here I consider how far my attempt has succeeded in accomplishing these aims.

As previously noted, my research did produce some significant positive results between pay and performance, yet confined to mainly one performance measure: TSR (Finding 7, Table 19). Admittedly, despite copious analyses of wide ranging variables, my search for stronger empirical evidence supporting the belief that there is a clear link between directors'

remuneration and company performance was generally unenlightening. The exhaustive exercise has, notwithstanding, yielded certain interesting findings:

- Annual bonus appears to be no less related to performance than long term incentives or other components of pay (Finding 2, Table 19)
- Total cash has more significant positive connections with company performance than all other pay variables (Finding 3, Table 19).

These findings suggest an irony: the elements of remuneration that have received the greatest amount of all round advocacy (from agency theorists to governance bodies, to industry practitioners to policy makers and market analysts), i.e. long term share incentives, have not quite measured up to the high level of expectations vested in them; whereas the elements that have come under incessant attacks, particularly from pay researchers, the media and the general public, i.e. annual bonus and total cash, seem to have fared moderately better than predicted. One must, however, bear in mind that this is not to say that annual bonus is a superior incentive vehicle to long term incentives or vice versa. By drawing attention to these results, the importance of a balanced remuneration structure, one that effectively combines fixed and variable pay, long and short term incentives, is once again reasserted which leads us to the next point.

Another notable observation from the current research is the propensity for companies to imitate each other and follow trends in executive compensation practices due to coercive and mimetic pressures (Bender 2004). Perhaps the best illustration of this point is the use of non-performance contingent share options: once heralded as the answer to aligning the interests of shareholders and management in the late 1990s, they were rendered practically obsolete not long after the 'dot com bubble' collapsed in 2000. Such degree of flexibility and adjustability can sometimes be positive. During the periods of intense reforms, for instance, companies were able to keep up with the rapidly changing regulatory requirements as demonstrated by the high level of compliance to governance codes⁸. However, rather disappointingly, this dynamism shown by many companies seems to have been overshadowed by their apparent inability to leverage more tailored incentive plans and other pay devices to improve performance.

⁸ *In 2011, the level of straight compliance of the UK Corporate Governance Code in the FTSE 350 was around 50%, however, non-compliance typically related to only one or two provisions. Therefore, including those who cited full compliance, the FTSE 350 comply with 96% of the Code's provision (Grant Thornton, 2001).*

In light of the foregoing, I surmise that unless companies refrain from adopting governance practices in a sweeping manner and that the earlier-mentioned issues concerning the over-reliance on corporate boards, independence of directors, multiple agency conflicts and the pervasive impact of managerial power are thoroughly addressed when designing future reform proposals, no pay programmes nor other structural and procedural mechanisms are likely to work to their full effect.

Finally, it is worth noting that the findings from the pay-performance analysis for the financial services industry are not worse than for other industry sectors (Finding 9, Table 19). While the quantitative results from this study should be considered with caution due to the limitations of the methodology (arguably, more sophisticated modelling techniques could have been employed), this particular finding seems intriguing in that it has highlighted that UK corporate governance only applies to the public company boards, which, in today's corporate environment, is no longer sufficient and has already had some profound consequences.

For example, it is evident that the gripping accounts of the latest malfeasance in the banking sector are of a somewhat different genre, involving subsidiaries and investment arms of public limited companies, which are generally not bound by governance regulations. Besides, many of the senior executives who run these profit centres do not in fact sit on the board and are, hence, not subject to the same level of governance pressure or inspection and can escape scrutiny more easily. The remuneration packages (incentive opportunities in particular) of these individuals more often than not are substantially higher than their board counterparts, including the chief executive. Although much progress has been made in the most recent past to regulate financial institutions (Walker 2009), it may be necessary for corporate governance to extend beyond the realm of listed companies.

8.2 Summary

It is both extraordinary and counterintuitive to reflect that practically no meaningful connection can be found between what large public companies pay their senior executives and how well those companies perform for their shareholders. Almost everyone acquainted with business would surely expect that the promise of high rewards would incentivise executives to make sure that the assets under their care would be used as profitably as possible.

Discouragingly, repeated empirical studies that bear on the relationship between pay and performance have yet to produce results that confidently predict strong positive findings. At the same time, company size has all the while been reported as the most statistically significant predictor of directors' remuneration in both academic research and industry surveys. This link does have some justifiable grounds, as discussed earlier. However, putting these two observations together provides a rather worrying formula. For it appears that in practice, senior executives have little or no incentive to maximise share value through normal trading activities, while they have every incentive to push to grow the size of their company by every means, including acquisition. Faced, for example, with the decision as to whether to distribute profits as dividends, or to use those profits to buy suitable companies, the CEO has every incentive to prefer the acquisition.

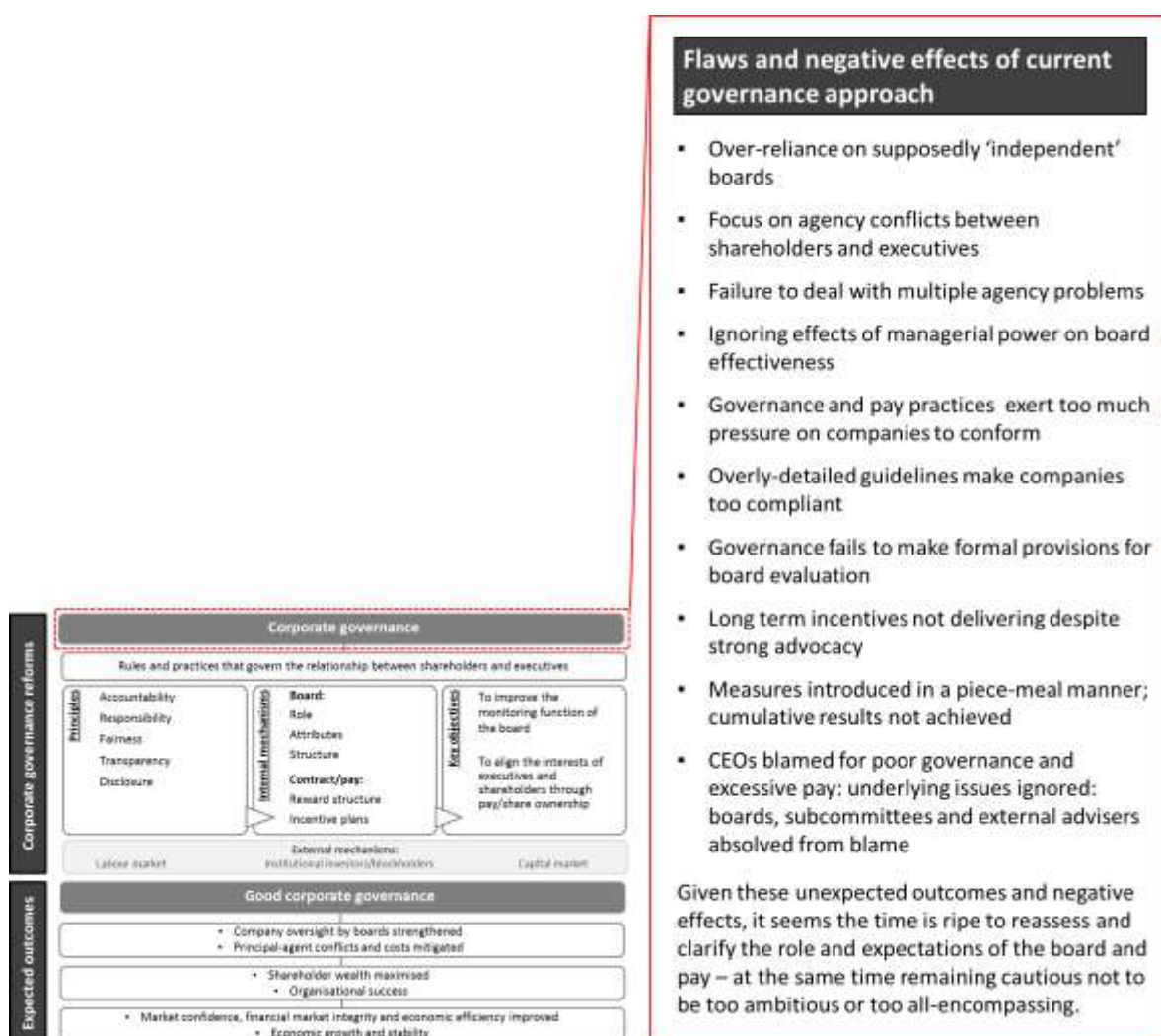
This scenario is not merely a hypothetical concern, for it is precisely this malpractice that has been alleged as one of the causes of the financial crash of 2008. Banks in Iceland, Ireland, the UK and the US, expanded very rapidly by acquisition and inflating their balance sheets with loans that had little chance of being repaid - enriching the executives of those banks at the expense of their own shareholders. Perhaps boards should be alert to signs in their company of reckless, sudden expansion, and ask if this is an indication of top management doing what is beneficial for them rather than for the company - i.e. a sign of interest misalignment of which they should be cautious.

This is by no means the only paradox encountered by the student of the relationship between pay and corporate performance. Equally contradictory is the fact that the governments and regulatory authorities of Britain have continuously revised and strengthened the rules, both advisory and mandatory, surrounding governance for two decades with ever-stricter measures to deter corporate malfeasance; yet the financial debacles and their repercussions have grown rather than diminished.

Given the 20-year history of cumulative reforms in corporate governance, this fundamental failure is all the more astonishing and inexplicable. As a consequence, it becomes crucially important to attempt to understand every nuance of the relationship between reward and performance so that companies will be better equipped to get the best from their senior executives and regulators will better understand how to foster productive behaviour while deterring malpractice.

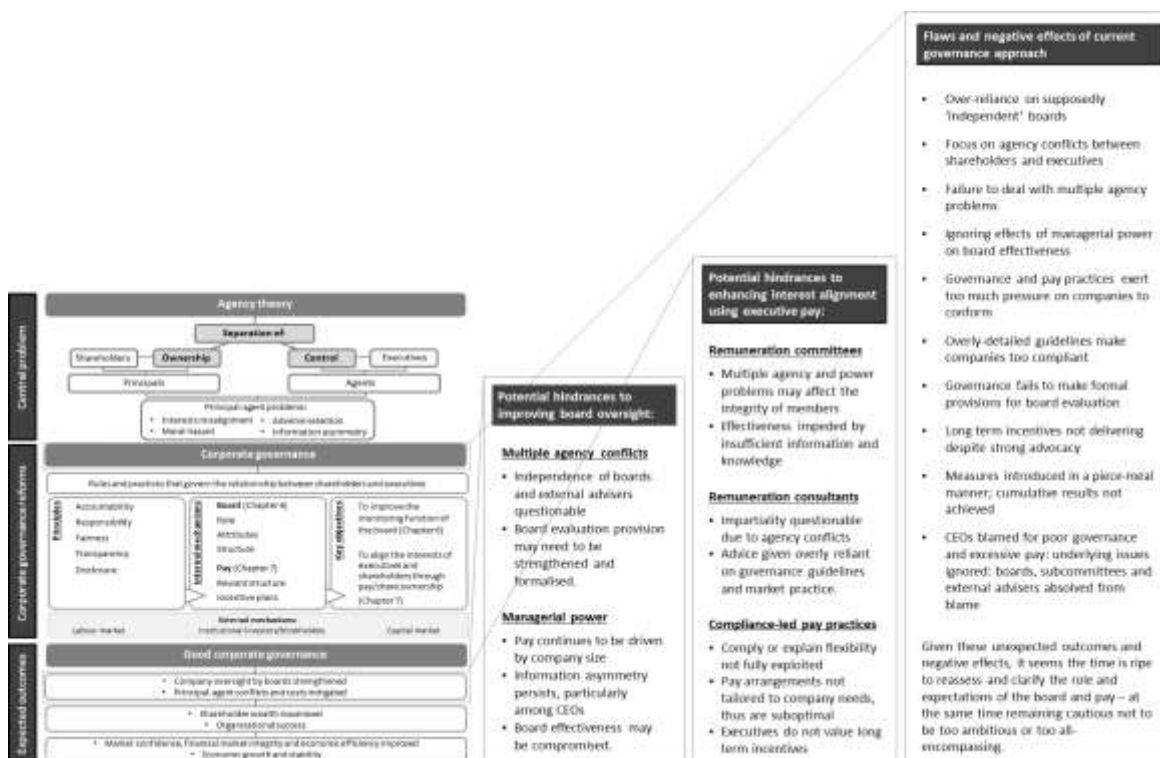
Taken all round, the changes made to the governance code may have standardised and strengthened structural and procedural governance, but it seems that they have done little to enhance the integrity and accountability of the board itself; and more than that, the current governance approach is not without some apparent flaws that require attention as demonstrated in Figures 19 and 20. If boards are to be able in future to fulfil their role as agents of the shareholders more effectively, they will almost certainly have to go beyond the letter of current codes and best practices and, in effect, develop their own sense of effective governance.

Figure 19 Flaws of current governance approach



Source: this author

Figure 20 Proposed considerations for improving UK corporate governance



Source: this author

8.3 Limitations and implications

It is important for the interpretations of my research findings, and the discussion presented in Chapters 6 and 7 and elsewhere, to be considered in the context of the limitations of the study. In this section, I discuss the limitations of my research and also look forward to what new avenues my findings have prompted for future research.

The first limitation of my study is the **length of the study period**. While the Cadbury Report was published in 1992, it was not until 2002 when the Directors Remuneration Report Regulations came into force that remuneration disclosure became mandatory and began to become standardised. This meant that data from 2002 and 2004 were still not entirely consistent, with gaps in many remuneration aspects, especially regarding the long term incentives. Detailed information about option and share awards were also limited, often insufficient to carry out valuations of factors such as grant and exercise prices, grant, vesting and exercise dates, number of options or shares granted, vested, exercised during the year and in previous years, any discounts offered plan rules and performance condition specifics. Using only five years' worth of data is limiting as natural market fluctuations and economy conditions cannot be fully reflected in a relatively short period of time. A longer study period (perhaps 10 years) would yield more detailed data and could make observing trends easier. Nor must one forget that governance reform did not happen overnight. Measures were introduced gradually, a few at a time, under the various codes and guidelines, over a 20-year time frame, with revisions and updates being made all the while. So although it might seem that enough time has gone by to draw some conclusions as to whether the reform has worked, one must take into account the fact that some aspects of the system are still undergoing major changes. Against this, one must recognise that the reform of corporate governance is likely to be always a work in progress, and unlikely ever to reach a perfected state.

A second limitation is my **sample size**. While the FTSE 100 is a very distinctive group and meaningful results can be drawn, it is not quite large enough to do more in-depth industry analysis or perform some other data cuts such as by company life cycle and other, more fine-grained company, board and directors' characteristics. This point is important because even at a time when corporate governance and executive pay are considered as inadequate, there are companies that are operating effectively, with pay arrangements that function properly and deliver outcomes that benefit both the executives and shareholders, and hence valuable conclusions to be drawn. Who are these paragons of good corporate governance? For instance, are they industry specific? What are their defining characteristics? How do they motivate their

executives typically? To answer these questions, future research could consider carrying out analysis based on a larger data set, FTSE 350 for example, specifically to try to find out what make these 'model' companies stand out, and what sets them apart from their peers.

Another key limitation lies with the **data being solely UK based**. The present study focuses on corporate governance practices in the UK and all the analyses were conducted using the remuneration data of locally based directors. Such country-specific approach could place limitations on the application of the results. In particular, corporate governance policies vary considerably for different countries due to differing laws and regulations; the policies examined in this thesis are only applicable to the UK which might potentially limit how the research findings can be generalised. If the study were replicated in other jurisdictions, different results may be obtained.

A fourth limitation is **my research method and methodology**. Although the research is based partly on a review of the literature and partly on a quantitative method, empirical evidence and statistical analysis may not be enough to answer all the outstanding questions and unresolved problems about corporate governance and executive pay. Since no two companies are the same and have the same needs, case studies might be the best way forward and offer us insights that aggregated data from a large sample simply cannot. Letendre (2004) and Bender (2007) both pointed out that case studies would be good to supplement quantitative work.

After all, corporate governance and executive pay research is not just of concern for academics trying to find correlations between an executive pay or governance variable and a financial performance variable. The subject must be looked at more holistically as it touches on issues about ethics, morals, personality traits, corporate culture. It seems clear that it is very difficult, if not impossible, to gauge accurately the effectiveness of executive pay arrangements and governance measures and to establish the performance link by using large data sets with aggregated data. This method is far from accurate and reliable because there are too many outside factors in the equation, and both executive pay and corporate governance are multi-faceted subjects involving human psychology.

Given this difficulty, case studies of individual companies appear to be a better alternative, so companies should be encouraged to allow, and perhaps also to fund, researchers to analyse their main board and executive pay practices to determine what is working and what is not working. Such individual investigation will ultimately help them devise a customised approach

that is tailored to the needs of the business, financially and operationally, the needs of shareholders, and the needs of the executives and employees, as well as reflecting good corporate governance. Such case studies would be not dissimilar to the way external strategy consultants are contracted to improve the company's long term success - but without the problems with consultants discussed in Chapters 6 and 7 regarding lack of independence and with 'profit' being their main end goal.

At present such detailed individual studies are not widely done, mainly due to commercial sensitivity and confidentiality. It is also an expensive and time-consuming undertaking for companies to commit themselves to. But given the governance problems currently being experienced in parts of the corporate world, it seems more than ever a matter of urgency to do something more than simply promulgating more and more guidelines. What seems clear is that it cannot be right for companies to all just follow governance best practice recommendations - it is simply unrealistic to imagine that these best practices are really optimal for each and every company.

In summary, future research in this area may find it necessary to clarify or even rethink the objectives and goals of corporate governance and executive pay. For instance, should corporate governance been seen as a system to protect the interests of shareholders? Or a safety net to prevent major corporate malpractice? Or do we want it to align interests in order to improve company financial performance? A second issue is executive pay itself. Are we trying to regulate pay levels, or stop paying for non-performance and failure? In the 2010 UK Corporate Governance Code, for example, there is a provision for actually penalising executives for poor performance. Or should we instead be viewing executive pay as a tool to create shareholder value? It is clear that both governance and pay have many objectives. What is open to question is whether it is realistic to expect reforms to governance and pay practices to deliver all the desired benefits equally effectively and all at the same time.

8.4 Closing remarks

While still far from perfect, almost every aspect of UK corporate governance, including executive pay, has progressed considerably since reforms began. The extant literature may not have provided uniform evidence suggesting that the latest improvements in governance, marked by tighter structures and more formal processes, have delivered what agency theory postulates in relation to using incentives to eliminate conflicts of interests and alleviate the

associated costs. Nonetheless, the field's collective research efforts have brought to light potential reasons for the prevailing issues with not only the present governance framework, but also with previous studies, including theoretical, conceptual and methodological concerns. And I profoundly hope that my research is among them, offering empirical evidence, analytical arguments and critical thought that contribute to our understanding of executive pay in the context of corporate governance.

As with most reform movements, there is often a tendency, especially in the media, for radical complaints, bitter denunciation and general negativities about the related policy initiatives. To say that the changes in governance standards are not optimal where some or all of them may not have the desired impacts to any measurable degree is not to say that they do not have a rational basis or are misdirected. It is paramount to recognise and appreciate that, on balance, many of the newly implemented practices have formed crucial parts of the platform of good corporate governance. But more than that, the active introduction of new measures by governing bodies over the years would also have served, to some extent, the all-important function of restoring public trust and investors' confidence in the markets.

Furthermore, one must also acknowledge that no governance initiative is or can be foolproof and, more importantly, reform is a continuous process that requires reassessments on a periodic basis; it is not something that can be fixed once and for all - adjustments to current policies and implementation of new measures will inevitably be necessary on occasion. As suggested in Section 5.2 past reform efforts have come to be seen as generated sporadically in response to major crises and the residual public outrage, many of which have been stridently criticised as being ill thought-out quick fixes that are neither effective nor sustainable. Thus, in my view, an important task for the future would be to draw a lesson from recent experiences and be vigilant that any corporate governance changes should be made with care in light of the periodic reviews and best obtainable empirical evidence and existing practices should not be undone without justifiable grounds. Perhaps it is time to do more than just periodically revise existing guidelines and re-publishing an updated version of the governance code; but to review the entire UK system to ensure a holistic approach is being achieved. It may even be necessary to re-consider or to clarify the objectives of corporate governance in order to judge whether it is fit for today's purpose. Similarly, companies should look at their corporate governance practices and see if they work coherently as one - the fact that individual mechanisms are effective does not mean that they combine to form an effective overall governance programme.

All considering, the stance I take is that we should not focus narrowly on the bad and ugly of corporate governance and executive pay. It may be that we have underestimated the severity and the magnitude of the overall problem of corporate oversight and interest alignment, and overestimated the effectiveness of the governance solutions that have been implemented. Yet, there is at present no need to call for another overhaul of current practices or repeal the entire system, or even dismiss the reform movement as a failure.

Instead, while continuing to look forward, let us also take heed of what two decades of governance reforms have achieved. They have brought about greater awareness of the problems, exposing their seriousness. They have also equipped us with tools that enable us to identify the issues more easily and devise more appropriate measures. And above all, they have helped us lay a solid foundation that is ready to welcome future changes to the corporate landscape.

9 References

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Appendix A – Overview of recent executive pay studies

TABLE REMOVED FOR COPYRIGHT REASONS

Source: Devers et al 2007 pages 1044-1067

Appendix B - FTSE 100 long-term incentive pay practices

Long-term incentives typically comprise around 35% of a FTSE 100 executive director's remuneration package. The two main types of long-term incentive award types are:

Share options - market value options are granted that vest three years later subject to continued employment and performance conditions

Free shares - conditional awards of whole free shares are granted which also vest three years later, again subject to continued employment and performance conditions.

There are two main arrangements where free shares are awarded to executives:

Performance Share Plans (PSP), under which conditional awards of shares are made without executives being required to invest in shares themselves.

Share Matching Plans (SMP), also known as Deferred Bonus Plans, under which conditional awards of shares are made that "match" the number of shares invested (using bonus, other monies or shares already held) and retained by the executive in the Plan.

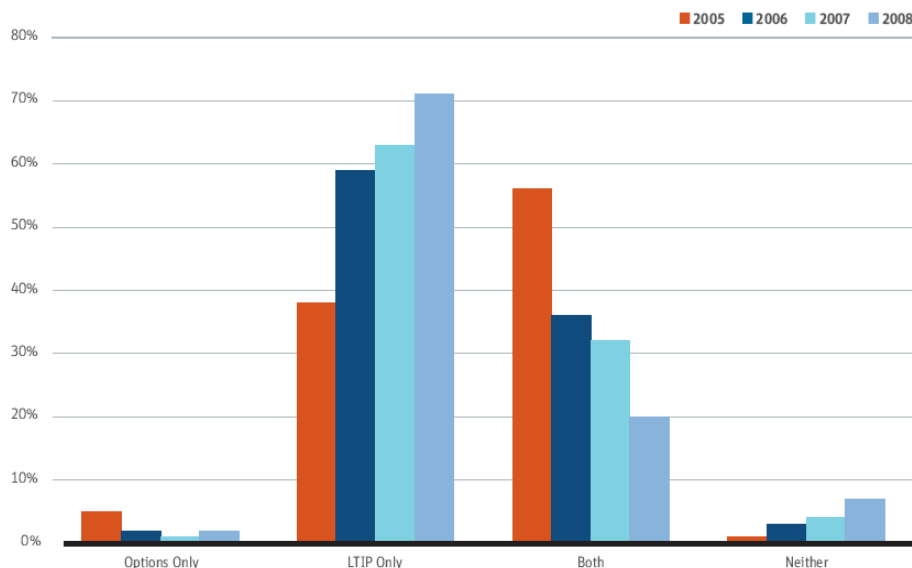
Exhibit 1 shows the split between companies using options and LTIPs. It shows that now 71% of companies use LTIPs only (compared to only 38% in 2005). Only 22% of companies have a policy of granting options (compared to around 60% in 2005). Options are now viewed as a potentially volatile incentive that can be perceived to be worthless if underwater and which are typically less efficient than LTIPs from a dilution and accounting cost perspective.

Exhibit 2 shows in more detail the combination of plans operated. It shows that the most common arrangement is the sole operation of a Performance Share Plan (38% of FTSE 100 companies). Whilst, generally, options are in (probably terminal) decline, Exhibit 2 shows that 30% of FTSE 30 companies still use options (although every one of these companies also operates a Performance Share Plan). This could reflect the fact they are global companies which may have operations in jurisdictions where options are still the norm.

Other Key Points to Note:

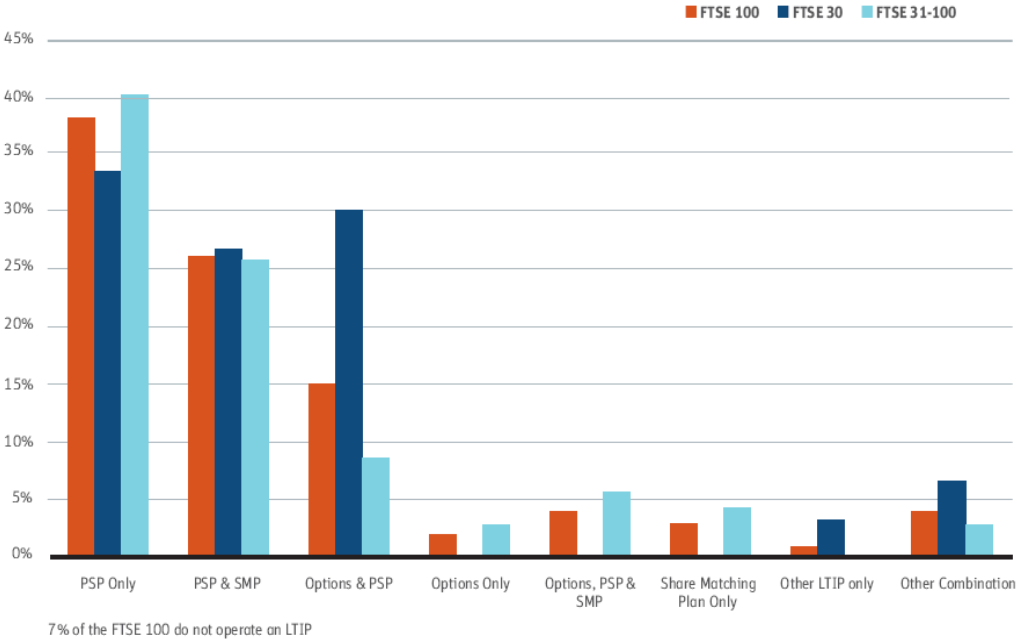
- 38% of FTSE 100 companies operate only a Performance Share Plan.
- 34% operate a Share Matching Plan/Deferred Share Plan.
- Only 22% grant options (compared to around 60% in 2005).
- The median expected value of long-term incentive provision for the Highest Paid Director (i.e. CEO) is 135% of salary (i.e. equivalent to a 245% of salary long-term incentive award in face value terms). For the other executives it is 110% of salary (i.e. a 200% of salary long-term incentive award in face value terms).
- While TSR is still the most prevalent metric, many LTIPs use a combination of performance measures.

Exhibit 1: Types of Long-term Incentives Available to FTSE 100 Executives 2005-2008



(Source: Hewitt New Bridge Street 2008)

Exhibit 2: Types of Long-term Incentives Available to FTSE 100 Executives in 2008



(Source: Hewitt New Bridge Street 2008)

Share Options

A share option is the right to buy a certain number of shares at a fixed price at a future date. This 'exercise price' is typically equal to the market value of the underlying share on the date the option is granted. An employee realises value from a share option to the extent that the share price on the date of exercise exceeds the exercise price. Vesting of the option – and so the right to exercise it – will, with almost all awards to executive directors of FTSE 100 companies, depend on meeting a specified performance condition, with real EPS growth the most common measurement (Exhibit 4).

The tables in Exhibit 3 show the levels of share option grants made to chief executives, finance directors and other executive directors of FTSE 100 companies respectively. The tables show: i) the maximum grant as a percentage of salary where this is indicated for the plan. Plans which are uncapped or where the maximum is not expressed as a percentage of salary (or not disclosed) have been excluded from this analysis; ii) the actual grants made (i.e., the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount, and iii) the expected value of awards.

Note: The actual levels of award referred to in these tables are notional amounts based on an estimated value and not the payouts that will eventually be received. The payout received under any plan will depend upon the extent to which performance conditions are met and on the share price at the time of payout (data source: KPMG 2008)

Exhibit 5 shows details of how EPS targets are structured in Option Plans. Most plans use a sliding scale EPS measure, the median performance range is EPS growth exceeding RPI by 3% p.a. to RPI plus 6.5% p.a. Whereas in Option Plans which use TSR measured against a comparator group, the typical vesting range is median for awards to begin to vest (this is the case for all plans) and upper quartile (46% of plans) for awards to vest in full (although 38% of plans now require above upper quartile performance).

Exhibit 3: FTSE 100 Share Option Grant Practices and Levels in 2008

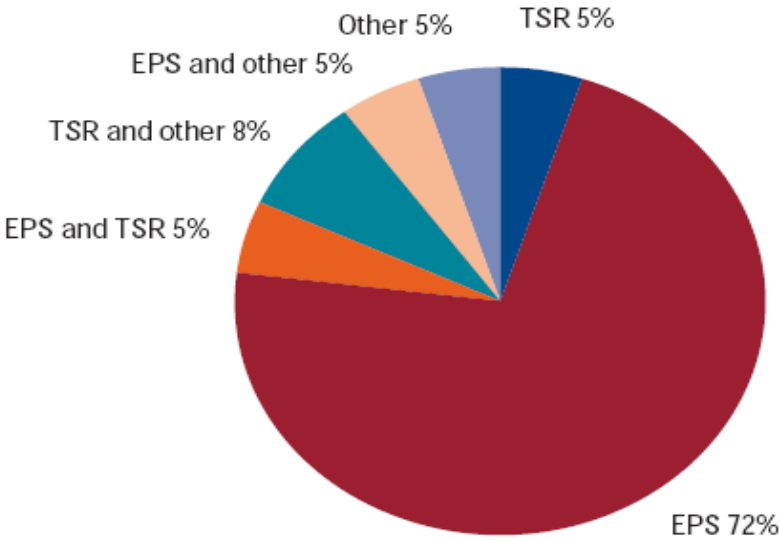
Chief Executive	FTSE 100			Finance Director	FTSE 100		
	Lower Quartile	Median	Upper Quartile		Lower Quartile	Median	Upper Quartile
Maximum Grant (percentage of salary)	154%	300%	400%	Maximum Grant (percentage of salary)	156%	300%	390%
Actual Grant (percentage of salary)	100%	192%	380%	Actual Grant (percentage of salary)	167%	235%	396%
Actual Grant (£000)	703	2,480	3,937	Actual Grant (£000)	797	1,609	2,334
Expected Value (£000)	406	673	1098	Expected Value (£000)	265	434	786

Other Executives	FTSE 100		
	Lower Quartile	Median	Upper Quartile
Maximum Grant (percentage of salary)	150%	250%	440%
Actual Grant (percentage of salary)	100%	151%	206%
Actual Grant (£000)	505	836	1,463
Expected Value (£000)	213	321	488

(Source: KPMG 2008)

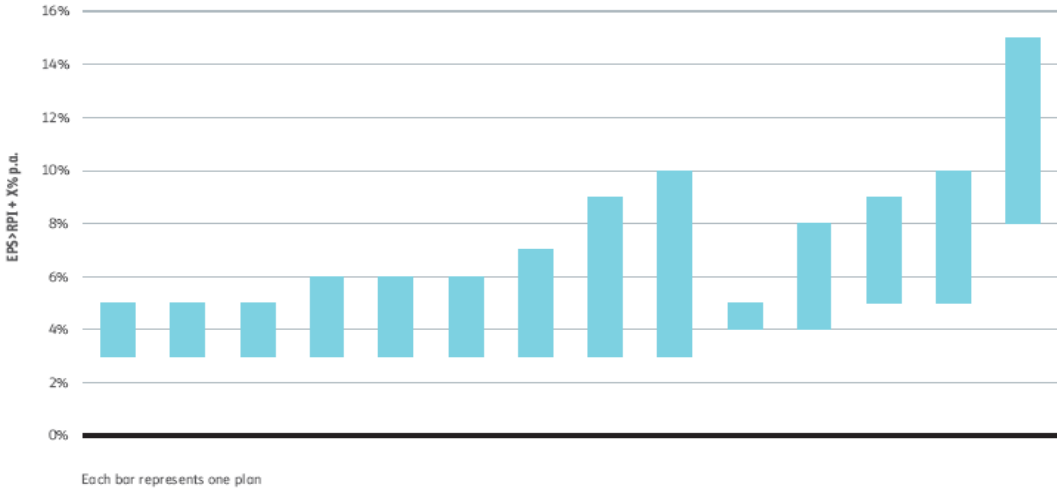
Share Options

Exhibit 4: Performance Measures in FTSE 100 Share Option Plans



(Source: KPMG 2008)

Exhibit 5: EPS Targets for Minimum to Maximum Vesting in FTSE 100 Executive Options Plans Using an EPS against RPI Performance Measure



(Source: Hewitt New Bridge Street 2008)

Performance Shares

Performance share plans are long-term incentive plans that deliver free shares to participants at the end of a specified performance period, commonly three years. Awards are often structured as conditional rights to acquire shares on vesting or as nil-cost options and, as such, are 'whole share' awards as opposed to 'upside-only' awards, such as market value share options. Awards vest at the end of the performance period to the extent that specified performance conditions have been achieved. The performance condition most commonly used in performance share plans is TSR, with 77% of FTSE 100 plans with such provision (Exhibit 7).

The following tables (Exhibit 6) look at performance share plan awards made to chief executives, finance directors and other executive directors of FTSE 100. They show: i) the maximum award level as a percentage of salary where this is indicated for the plan. Plans which are uncapped or where the maximum is not expressed as a percentage of salary, or not disclosed, have been excluded from this analysis; ii) the actual awards made (i.e., the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount, and iii) the expected value of awards.

Note: The actual levels of award referred to in these tables are notional amounts based on an estimated value and not the payouts that will eventually be received. The payout received under any plan will depend upon the extent to which performance conditions are met and on the share price at the time of payout (data source: KPMG 2008).

Exhibit 8 shows details of how TSR targets are structured in FTSE 100 Performance Share Plans. All TSR PSP plans require the company to be ranked at least median for awards to start to vest. Whilst upper quartile performance is still the most common level (49% of plans), 50% of plans require above upper quartile performance for awards to vest in full (with around 15% of plans requiring at or above upper decile, i.e. top 10% or above, performance for awards to vest in full).

Exhibit 6: FTSE 100 Performance Share Plan Practices and Levels in 2008

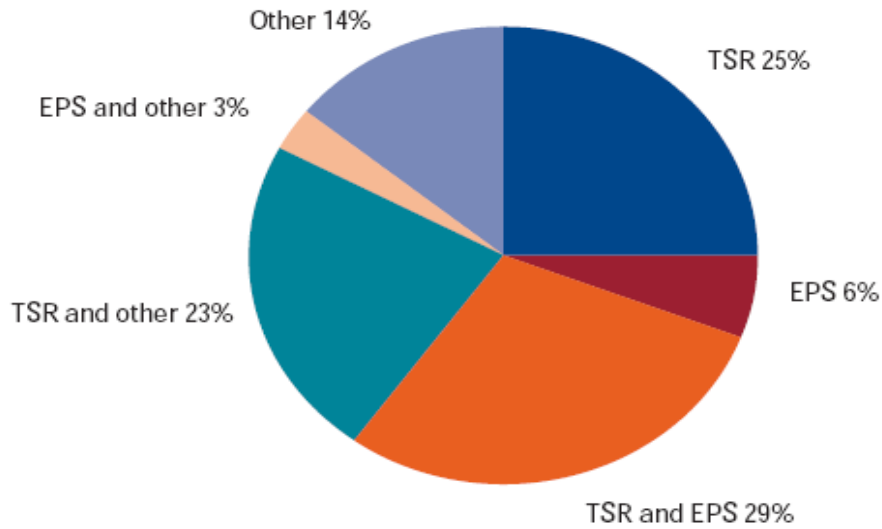
Chief Executive	FTSE 100			Finance Director	FTSE 100		
	Lower Quartile	Median	Upper Quartile		Lower Quartile	Median	Upper Quartile
Maximum Award (percentage of salary)	150%	250%	333%	Maximum Award (percentage of salary)	150%	250%	312%
Actual Award (percentage of salary)	124%	211%	387%	Actual Award (percentage of salary)	101%	157%	252%
Actual Award (£000)	843	1,799	3,268	Actual Award (£000)	491	795	1,331
Expected Value (£000)	378	834	1,469	Expected Value (£000)	319	516	820

Other Executive Directors	FTSE 100		
	Lower Quartile	Median	Upper Quartile
Maximum Award (percentage of salary)	100%	207%	374%
Actual Award (percentage of salary)	90%	153%	285%
Actual Award (£000)	381	692	1,391
Expected Value (£000)	196	348	743

(Source: KPMG 2008)

Performance Shares

Exhibit 7: Performance Measures in FTSE 100 Performance Share Plans



(Source: KPMG 2008)

Exhibit 8: TSR Targets for Maximum Vesting in FTSE 100 Performance Share Plans Using a Relative TSR Performance Measure

Maximum TSR Target	Percentage of Plans
> Top 10%	3%
Top 10% (i.e. upper decile)	11%
Between Top 10% and 20%	9%
Top 20% (i.e. upper quintile)	27%
Between Top 20% and 25%	0%
Top 25% (i.e. upper quartile)	49%
< Top 25%	1%

(Source: Hewitt New Bridge Street 2008)

Deferred Matching Shares

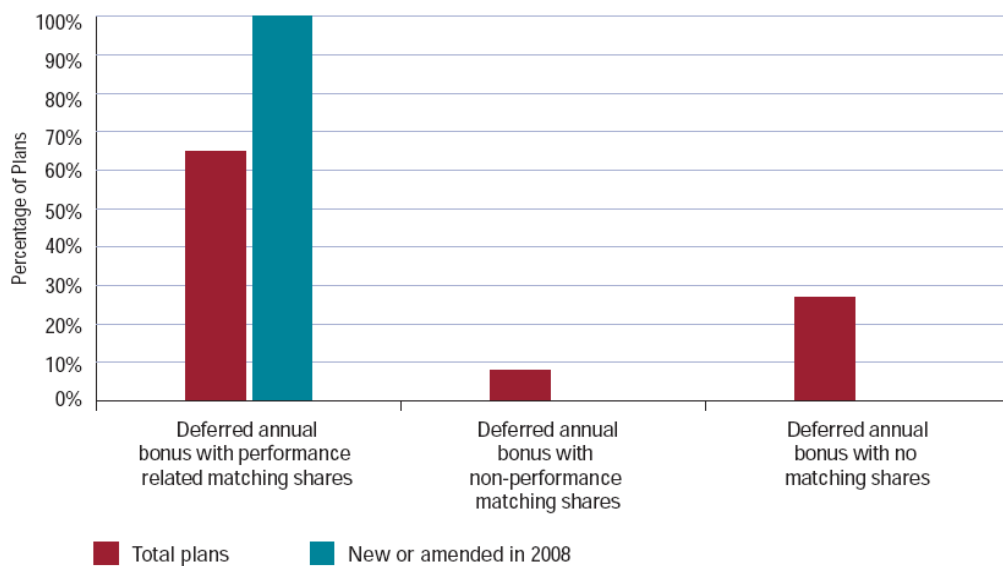
A share matching plan (also referred to as deferred bonus plan or deferred shares) typically involves the voluntary and/or compulsory deferral of some or all of an annual bonus into an award over company shares, which is restricted for a period of time ('deferred shares'). In 2008, 60% of FTSE 100 companies (up from 52% last year) compulsorily require part of the bonus to be deferred in shares, with over 80% of these arrangements structured so that the deferred shares are forfeited if the executive leaves. The most common level of deferral is a third of any bonus paid and the typical length of deferral is three years (over 70%, although around 25% of companies allow all or some of the shares to vest before three years). Around a third of the companies that require part of the bonus to be deferred in shares also grant a corresponding award of "matching" shares under a "Share Matching Plan". The matching shares typically vest subject to the achievement of long-term performance targets.

Exhibit 10 shows the range of actual deferrals made, as reported in the most recent report and accounts, in deferred annual bonus plans operated by FTSE 100, expressed as a percentage of total bonus. Where the deferral is voluntary, the actual deferral levels, as a percentage of bonus, are generally much lower than if the deferral is compulsory. The compulsory deferral figures below include plans with both compulsory and voluntary deferral elements.

Matching share awards are made under the majority of live plans as well as almost all of the plans newly introduced in 2008. 1:1 remains the most common matching ratio, although a 2:1 match is now used by 32 percent of FTSE 100 companies (Exhibit 11). EPS is the most common performance condition for the matching share award (Exhibit 12). Exhibit 9 below shows the types of deferred annual bonus plans currently (in 2008) in operation in the FTSE 100, as well as the types that have been introduced or amended during the 2008 AGM season. There has been a continuing trend of more deferred annual bonus plans for executive directors offering performance-related matching shares in recent years.

Note: Share Matching Plans are rarely used on their own as the upfront investment in shares tends to be funded via annual bonus (even if other funding routes are available).

Exhibit 9: Deferred Bonus Plan Types as a Percentage of Live Plans – FTSE 100 Companies (2008)



(Source: KPMG 2008)

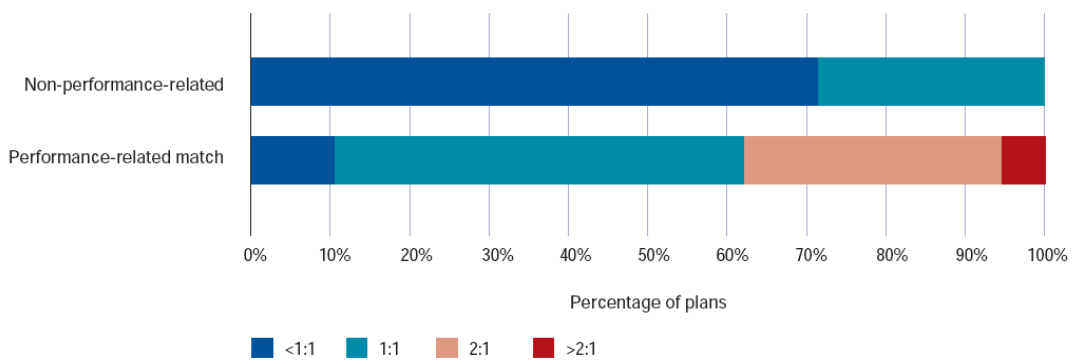
Deferred Matching Shares

Exhibit 10: Deferral Practice in FTSE 100 Deferred Bonus Plans (2008)

Actual Deferral as a Percentage of Bonus	FTSE 100	
	Voluntary Deferral (Percentage of Plans)	Compulsory Deferral (Percentage of Plans)
>50%	0%	61%
33% to 50%	2%	32%
<33%	98%	7%

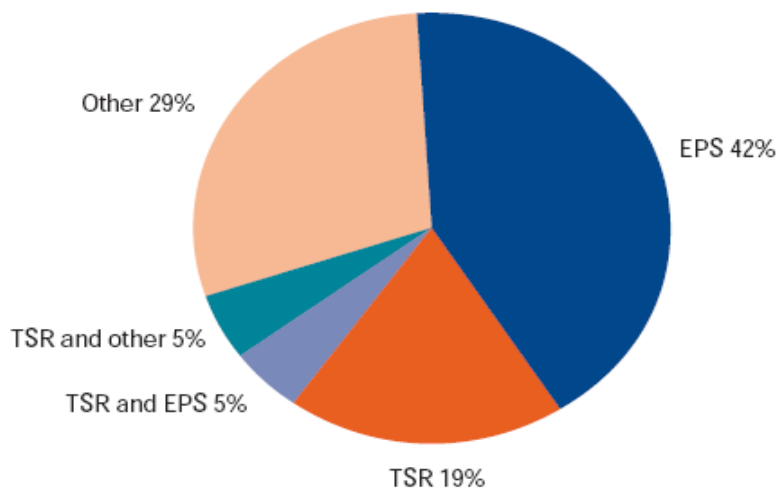
(Source: KPMG 2008)

Exhibit 11: Matching Ratios in FTSE 100 Deferred Bonus Plans (2008)



(Source: KPMG 2008)

Exhibit 12: Performance Measures in FTSE 100 Share Matching Plans



(Source: KPMG 2008)

Appendix C – Detailed Statistical Results

Part 1 - Relationship between Pay and Company Size

Size measure: Market Capitalisation

Data source: Bloomberg

Definition: Historical Market Capitalisation is calculated as: (Closing Price as of fiscal period end date) * (Shares outstanding at that period end date). Period end date is the most recent annual for which full fundamental data has been collected.

Incumbent groups: CEO
Finance Director (Fin Dir)
All directors (All Dir)
All directors excluding CEOs (All Dir - CEO)

P-value interpretations: The smaller the p-value, the more significant is the result

Significance association levels:

Red + Bold: significance level at 5% (0.05)

Blue + Italic: significance level at 10% (0.1)

Black: no association

H1a: Base Salary is positively related to Market Capitalisation

Year "t"	CEO		Fin Dir		All Dir		All Dir - CEO	
	r ^s	p-value	r ^s	p-value	r ^s	p-value	r ^s	p-value
2004-05	0.552	<0.0001	0.595	<0.0001	0.570	<0.0001	0.648	<0.0001
2005-06	0.641	<0.0001	0.732	<0.0001	0.635	<0.0001	0.696	<0.0001
2006-07	0.682	<0.0001	0.617	<0.0001	0.641	<0.0001	0.648	<0.0001
2007-08	0.703	<0.0001	0.748	<0.0001	0.556	<0.0001	0.698	<0.0001
2008-09	0.677	<0.0001	0.746	<0.0001	0.615	<0.0001	0.685	<0.0001

H1b: Total Cash is positively related to Market Capitalisation

Year "t"	CEO		Fin Dir		All Dir		All Dir - CEO	
	r ^s	p-value	r ^s	p-value	r ^s	p-value	r ^s	p-value
2004-05	0.519	<0.0001	0.550	<0.0001	0.591	<0.0001	0.640	<0.0001
2005-06	0.545	<0.0001	0.627	<0.0001	0.640	<0.0001	0.686	<0.0001
2006-07	0.546	<0.0001	0.524	<0.0001	0.550	<0.0001	0.516	<0.0001
2007-08	0.608	<0.0001	0.646	<0.0001	0.479	<0.0001	0.578	<0.0001
2008-09	0.527	<0.0001	0.627	<0.0001	0.490	<0.0001	0.575	<0.0001

Part 1 - Relationship between Pay and Company Size

H1c: Total Compensation is positively related to Market Capitalisation

Year "t"	CEO		Fin Dir		All Dir		All Dir - CEO	
	r ^s	p-value	r ^s	p-value	r ^s	p-value	r ^s	p-value
2004-05	0.446	<0.0001	0.547	<0.0001	0.564	<0.0001	0.606	<0.0001
2005-06	0.479	<0.0001	0.433	<0.0001	0.489	<0.0001	0.552	<0.0001
2006-07	0.506	<0.0001	0.549	<0.0001	0.582	<0.0001	0.557	<0.0001
2007-08	0.503	<0.0001	0.620	<0.0001	0.410	<0.0001	0.549	<0.0001
2008-09	0.509	<0.0001	0.625	<0.0001	0.537	<0.0001	0.600	<0.0001

H1d: Base Salary Increase is positively related to Market Capitalisation

Year "t"	CEO		Fin Dir		All Dir		All Dir - CEO	
	r ^s	p-value	r ^s	p-value	r ^s	p-value	r ^s	p-value
2004-05	-0.144	0.8310	-0.216	0.9310	0.011	0.4640	0.121	0.8280
2005-06	-0.095	0.7880	0.020	0.4400	0.060	0.3030	0.128	0.1380
2006-07	0.017	0.4470	-0.172	0.8700	-0.084	0.7630	0.090	0.7640
2007-08	0.147	0.2380	0.417	0.0010	0.256	0.0110	0.198	0.0490
2008-09	0.094	0.2200	0.055	0.3440	0.090	0.2130	0.074	0.2680

H1e: Variable Pay is positively related to Market Capitalisation

Year "t"	CEO		Fin Dir		All Dir		All Dir - CEO	
	r ^s	p-value	r ^s	p-value	r ^s	p-value	r ^s	p-value
2004-05	0.288	0.0015	0.408	0.0020	0.345	0.0005	0.335	0.0005
2005-06	0.273	0.0040	0.036	0.3870	0.221	0.0190	0.248	0.0100
2006-07	0.357	0.0005	0.343	0.0010	0.352	0.0005	0.321	0.0010
2007-08	0.309	0.0010	0.397	<0.0001	0.263	0.0050	0.262	0.0070
2008-09	0.207	0.0240	0.286	0.0065	0.252	0.0070	0.222	0.0020

Part 1 - Relationship between Pay and Company Size

H1f: The correlation between Market Capitalisation & Variable Pay is different from that between Market Capitalisation & Base Salary

1 = Market Capitalisation (MC)

2 = Variable Pay (VP)

3 = Base Salary (BS)

N = Number of cases

Note: Negative test stat = $\text{corr}(\text{MC}, \text{VP}) < \text{corr}(\text{MC}, \text{BS})$ whilst positive test stat = $\text{corr}(\text{MC}, \text{VP}) > \text{corr}(\text{MC}, \text{BS})$

CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	104	0.449	0.542	0.515	-1.1461	0.2545
2005-06	92	0.162	0.566	0.297	-3.8301	0.0002
2006-07	88	0.298	0.615	0.241	-2.9531	0.0041
2007-08	96	0.112	0.506	0.339	-3.8027	0.0003
2008-09	92	0.008	0.408	0.194	-3.2433	0.0017

Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	86	0.193	0.548	0.223	-3.0418	0.0031
2005-06	65	0.074	0.546	0.067	-3.1661	0.0024
2006-07	78	0.199	0.427	0.255	-1.7755	<i>0.0799</i>
2007-08	79	0.322	0.576	0.309	-2.2823	0.0253
2008-09	75	0.126	0.595	0.231	-3.9023	0.0002

All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	98	0.308	0.489	0.289	-1.6958	<i>0.0932</i>
2005-06	89	0.146	0.477	0.196	-2.7145	0.0040
2006-07	88	0.223	0.591	0.199	-3.2448	0.0017
2007-08	94	0.092	0.407	0.454	-3.1568	0.0022
2008-09	94	0.051	0.498	0.197	-3.8356	0.0002

All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	96	0.267	0.530	0.211	-2.3569	0.0205
2005-06	88	0.167	0.533	-0.052	-2.6902	0.0086
2006-07	88	0.215	0.488	-0.072	-1.9542	<i>0.0540</i>
2007-08	88	0.175	0.580	0.171	-3.4696	0.0008
2008-09	86	0.159	0.499	0.042	-2.5363	0.0131

Part 1 - Relationship between Pay and Company Size

H1g: The correlation between Market Capitalisation & Total Cash is different from that between Market Capitalisation & Base Salary

1 = Market Capitalisation (MC)

2 = Total Cash (TCash)

3 = Base Salary (BS)

N = Number of cases

Note: Negative test stat = $\text{corr}(\text{MC}, \text{TCash}) < \text{corr}(\text{MC}, \text{BS})$ whilst positive test stat = $\text{corr}(\text{MC}, \text{TCash}) > \text{corr}(\text{MC}, \text{BS})$

CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	104	0.531	0.542	0.789	-0.1293	0.8974
2005-06	92	0.571	0.566	0.553	0.0642	0.9490
2006-07	88	0.388	0.615	0.539	-2.7368	0.0076
2007-08	96	0.322	0.506	0.30	-1.7389	<i>0.0854</i>
2008-09	93	0.408	0.297	0.401	-1.0573	0.2932

Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	86	0.354	0.548	0.536	-2.1797	0.0321
2005-06	65	0.227	0.546	0.366	-2.6246	<i>0.0109</i>
2006-07	78	0.313	0.427	0.660	-1.3217	0.1903
2007-08	79	0.519	0.576	0.755	-0.5889	0.5577
2008-09	75	0.476	0.595	0.560	-1.3523	0.1805

All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	98	0.468	0.489	0.641	-0.2829	0.7779
2005-06	89	0.398	0.477	0.517	-0.8575	0.3935
2006-07	89	0.307	0.558	0.347	-2.4293	0.0172
2007-08	95	0.237	0.346	0.339	-0.9706	0.3343
2008-09	95	0.345	0.361	0.467	-0.1620	0.8716

All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	96	0.460	0.530	0.598	-0.9002	0.3703
2005-06	88	0.393	0.533	0.476	-1.4960	0.1384
2006-07	88	0.235	0.488	0.312	-2.2554	0.0267
2007-08	88	0.384	0.580	0.490	-2.1853	0.0316
2008-09	86	0.439	0.499	0.535	-0.6659	0.5073

Part 1 - Relationship between Pay and Company Size**H1h: The correlation between Market Capitalisation & Total Compensation is different from that between Market Capitalisation & Total Cash**

1 = Market Capitalisation (MC)

2 = Total Compensation (TComp)

3 = Total Cash (TCash)

N = Number of cases

Note: Negative test stat = $\text{corr}(\text{MC}, \text{TComp}) < \text{corr}(\text{MC}, \text{TCash})$ whilst positive test stat = $\text{corr}(\text{MC}, \text{TComp}) > \text{corr}(\text{MC}, \text{TCash})$

CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	104	0.492	0.531	0.783	-0.4951	0.6216
2005-06	92	0.199	0.571	0.659	-5.3819	<0.0001
2006-07	88	0.334	0.388	0.531	-0.5623	0.5754
2007-08	96	0.151	0.322	0.590	-1.9229	0.0575
2008-09	93	0.025	0.297	0.407	-2.4922	0.0145

Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	86	0.250	0.354	0.723	-1.3596	0.1776
2005-06	65	0.138	0.227	0.718	-0.9584	0.3418
2006-07	78	0.225	0.313	0.594	-0.8898	0.3764
2007-08	79	0.368	0.519	0.618	-1.7559	0.0831
2008-09	75	0.181	0.476	0.499	-2.8351	0.0059

All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	98	0.359	0.468	0.762	-1.7395	0.0852
2005-06	89	0.198	0.398	0.718	-2.7146	0.0080
2006-07	89	0.272	0.307	0.742	-0.4755	0.6356
2007-08	95	0.128	0.216	0.637	-1.0140	0.3132
2008-09	95	0.079	0.345	0.459	-2.6186	0.0103

All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	96	0.331	0.46	0.789	-2.1579	0.0335
2005-06	88	0.279	0.393	0.760	-1.6489	0.1029
2006-07	88	0.252	0.235	0.840	0.2865	0.7752
2007-08	88	0.315	0.384	0.592	-0.7652	0.4463
2008-09	86	0.206	0.439	0.538	-2.4491	0.0164

Part 2 - Relationship between Pay and Company Performance

Company Performance Measures:

Measure 1: One-year EPS Growth (EPS)

Data source: Datastream

Definition: Earnings per Share Growth is based on Basic EPS before Extraordinary items and is calculated using the following formula:

$$[(\text{EPS for the current period} - \text{EPS for the previous period}) / (\text{EPS for the previous period})] * 100$$

Measure 2: EBITDA Margin (EBITDA)

Data source: Bloomberg

Definition: EBITDA Margin is calculated as trailing twelve month EBITDA divided by trailing twelve month sales, times 100.

Measure 3: One-year Sales/Revenue Growth (Sales)

Data source: Datastream

Definition: Sales/Revenue year change (growth, in percentage) is calculated using the following formula:

$$[(\text{Net Sales/Revenue for the current period} - 1) / (\text{Net Sales/Revenue for the last period})] * 100$$

Measure 4: One-year Net Income Growth (Net Inc)

Data source: Bloomberg

Definition: Net income year change (growth, in percentage) is calculated using the following formula:

$$[(\text{Net Income for the current period} - 1) / (\text{Net Income for the last period})] * 100$$

Measure 5: Total Shareholder Return (TSR)

Data source: Datastream

Definition:

TSR represents a theoretical growth in value of a share holding over a specified period, assuming that dividends are re-invested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date. It is calculated using the following formula with Pricebegin = share price at beginning of period, Priceend = share price at end of period and Dividends = dividends paid:

$$\text{TSR} = (\text{Priceend} - \text{Pricebegin}) + \text{Dividends} / \text{Pricebegin}$$

Measure 6: Return on Equity (ROE)

Data source: Bloomberg

Definition: Return on equity (in percentage) is calculated as trailing 12 month Net Income (Losses) minus trailing 12 month Cash Preferred Dividends, divided by Average of Total Common Equity, times 100.

Incumbent groups: CEO

Finance Director (Fin Dir)

All directors (All Dir)

All directors excluding CEOs (All Dir - CEO)

Part 2 - Relationship between Pay and Company Performance

P-value The smaller the p-value, the more significant is the result

interpretations: Significance association levels:

Red + Bold: significance level at 5% (0.05)

Blue + Italic: significance level at 10% (0.1)

Black: no association

H2a: Base Salary Increase is related to Company Performance

CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	-0.137	0.347	0.047	0.780	0.435	0.002	0.071	0.636	-0.037	0.799	0.127	0.393
2005-06	-0.038	0.749	-0.008	0.952	-0.068	0.571	0.261	0.028	0.215	<i>0.069</i>	0.099	0.415
2006-07	0.171	0.184	0.150	0.298	0.110	0.401	0.173	0.183	0.004	0.975	-0.186	0.149
2007-08	-0.066	0.624	-0.057	0.707	0.013	0.926	-0.068	0.621	-0.063	0.642	-0.080	0.558
2008-09	-0.027	0.827	0.053	0.695	0.152	0.209	0.176	0.145	0.126	0.299	0.107	0.384

Finance Director												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	-0.100	0.492	-0.151	0.359	0.382	0.007	0.133	0.374	0.002	0.988	0.038	0.806
2005-06	0.174	0.192	0.021	0.888	0.269	0.043	0.481	0.000	0.174	0.196	-0.054	0.692
2006-07	-0.154	0.305	0.249	0.143	0.233	0.123	0.103	0.503	0.142	0.347	-0.142	0.358
2007-08	-0.161	0.249	0.015	0.924	0.001	0.995	0.061	0.669	0.347	0.011	0.135	0.337
2008-09	-0.052	0.706	0.018	0.904	0.225	<i>0.095</i>	0.152	0.263	0.242	<i>0.072</i>	0.273	0.044

All Directors												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	-0.074	0.543	0.122	0.378	0.039	0.753	0.261	0.032	-0.076	0.532	0.085	0.491
2005-06	0.092	0.426	0.141	0.280	0.207	<i>0.073</i>	0.393	0.000	0.129	0.267	-0.036	0.760
2006-07	0.005	0.963	0.093	0.479	0.067	0.566	0.154	0.188	0.128	0.269	0.204	<i>0.083</i>
2007-08	-0.119	0.294	0.260	0.038	-0.019	0.868	-0.044	0.705	0.148	0.190	-0.013	0.914
2008-09	0.020	0.861	0.123	0.319	0.117	0.300	0.124	0.272	0.121	0.286	0.214	<i>0.060</i>

All Directors - CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	-0.036	0.777	-0.023	0.877	0.259	0.042	-0.007	0.959	-0.018	0.889	0.083	0.531
2005-06	0.111	0.345	0.038	0.778	0.235	0.045	0.448	0.000	0.071	0.548	-0.002	0.984
2006-07	-0.038	0.759	-0.003	0.985	0.095	0.449	0.058	0.643	0.132	0.288	0.248	0.048
2007-08	-0.077	0.525	0.125	0.357	-0.010	0.934	0.025	0.840	0.153	0.203	-0.016	0.897
2008-09	0.091	0.449	0.103	0.436	0.182	0.125	0.141	0.238	0.142	0.234	0.262	0.027

Part 2 - Relationship between Pay and Company Performance

H2b: Annual Actual Bonus Increase is associated related to Company Performance

CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.132	0.381	-0.130	0.449	0.058	0.707	0.023	0.880	0.213	0.155	0.030	0.849
2005-06	0.048	0.692	-0.042	0.759	0.001	0.991	0.155	0.202	0.178	0.141	0.061	0.624
2006-07	0.061	0.643	0.160	0.272	-0.005	0.971	0.061	0.647	0.328	0.012	0.024	0.860
2007-08	0.094	0.491	-0.101	0.505	0.130	0.344	0.018	0.900	0.256	0.075	-0.010	0.944
2008-09	0.116	0.349	-0.082	0.549	0.177	0.152	0.155	0.211	0.369	0.002	0.190	0.129

Finance Director												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.109	0.473	-0.130	0.450	0.072	0.639	-0.014	0.930	0.052	0.729	0.017	0.913
2005-06	0.059	0.661	-0.006	0.967	0.056	0.685	0.162	0.239	0.361	0.006	-0.137	0.317
2006-07	0.116	0.447	0.151	0.388	0.021	0.891	0.029	0.851	0.279	0.063	0.049	0.755
2007-08	-0.020	0.894	-0.156	0.344	0.186	0.210	0.084	0.580	0.332	0.021	0.199	0.201
2008-09	0.147	0.285	-0.029	0.084	0.129	0.347	0.100	0.467	0.286	0.035	0.201	0.145

All Directors												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.005	0.966	-0.061	0.665	0.154	0.209	0.046	0.712	0.147	0.227	0.058	0.647
2005-06	-0.008	0.943	-0.041	0.754	0.006	0.956	0.164	0.159	0.088	0.451	-0.076	0.521
2006-07	0.155	0.183	0.160	0.231	0.021	0.861	0.090	0.446	0.290	0.012	0.015	0.903
2007-08	0.022	0.848	0.052	0.687	0.192	0.097	0.020	0.866	0.246	0.031	0.123	0.298
2008-09	0.137	0.230	-0.053	0.670	0.120	0.294	0.129	0.260	0.378	0.001	0.152	0.191

All Directors - CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.006	0.960	-0.028	0.841	0.155	0.204	0.127	0.302	0.152	0.208	0.053	0.680
2005-06	-0.007	0.950	0.008	0.953	0.013	0.910	0.160	0.176	0.213	0.069	-0.151	0.207
2006-07	0.191	0.118	0.103	0.467	0.080	0.518	0.106	0.392	0.360	0.003	0.025	0.844
2007-08	0.030	0.804	0.079	0.565	0.199	0.099	0.024	0.845	0.282	0.017	0.125	0.303
2008-09	0.084	0.486	-0.046	0.729	0.073	0.546	0.119	0.324	0.356	0.002	0.179	0.138

Part 2 - Relationship between Pay and Company Performance

H2c: Total Cash Increase is related to Company Performance

CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.120	0.411	0.036	0.830	0.116	0.434	0.068	0.650	0.343	0.016	0.005	0.971
2005-06	-0.015	0.896	-0.046	0.725	-0.165	0.153	0.013	0.913	0.029	0.802	0.059	0.615
2006-07	0.104	0.422	0.036	0.802	0.027	0.838	0.074	0.569	0.123	0.341	-0.036	0.745
2007-08	-0.018	0.894	0.047	0.753	0.074	0.579	-0.008	0.950	0.146	0.271	-0.033	0.808
2008-09	0.106	0.383	-0.134	0.317	0.229	0.057	0.204	0.090	0.247	0.040	0.171	0.045

Finance Director												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.096	0.510	-0.186	0.257	0.232	0.112	0.064	0.670	0.199	0.171	-0.052	0.733
2005-06	0.058	0.663	0.017	0.910	0.186	0.166	0.249	0.064	0.221	0.098	0.191	0.158
2006-07	-0.002	0.989	-0.020	0.907	0.089	0.560	0.055	0.719	0.214	0.108	-0.033	0.830
2007-08	-0.150	0.276	0.250	0.094	0.152	0.272	0.010	0.945	0.193	0.159	-0.007	0.958
2008-09	0.244	0.067	-0.217	0.138	0.243	0.069	0.164	0.224	0.318	0.016	0.361	0.006

All Directors												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	-0.010	0.934	0.142	0.297	0.283	0.017	0.133	0.274	0.184	0.121	0.059	0.637
2005-06	0.051	0.660	0.122	0.344	0.126	0.274	0.230	0.046	0.047	0.684	-0.055	0.641
2006-07	0.092	0.425	-0.127	0.334	0.051	0.663	0.062	0.598	0.327	0.004	-0.177	0.131
2007-08	-0.080	0.480	0.085	0.506	0.168	0.140	-0.011	0.923	0.221	0.049	0.042	0.716
2008-09	0.146	0.197	-0.132	0.286	0.111	0.327	0.113	0.318	0.251	0.024	0.117	0.306

All Directors - CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	-0.017	0.895	0.064	0.657	0.293	0.018	0.196	0.121	0.092	0.463	0.044	0.739
2005-06	0.082	0.482	0.165	0.207	0.158	0.180	0.233	0.048	0.193	0.100	-0.047	0.693
2006-07	0.109	0.373	-0.187	0.179	0.125	0.311	0.079	0.524	0.272	0.024	-0.134	0.285
2007-08	-0.380	0.753	0.056	0.682	0.192	0.110	0.014	0.909	0.243	0.041	0.045	0.712
2008-09	0.177	0.139	-0.124	0.348	0.183	0.128	0.197	0.100	0.315	0.007	0.257	0.031

Part 2 - Relationship between Pay and Company Performance

H2d: Long-term Incentive Increase is related to Company Performance

CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	insufficient data											
2005-06	0.207	0.071	0.148	0.259	0.244	0.034	0.031	0.792	0.294	0.010	0.038	0.747
2006-07	0.068	0.600	-0.027	0.855	0.060	0.649	0.008	0.949	0.015	0.908	-0.150	0.257
2007-08	-0.046	0.727	-0.153	0.299	-0.038	0.778	0.049	0.717	0.247	0.059	0.084	0.531
2008-09	-0.109	0.371	-0.062	0.645	-0.180	0.137	-0.141	0.244	-0.122	0.313	0.115	0.349

Finance Director												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	insufficient data											
2005-06	0.039	0.760	0.167	0.232	-0.012	0.926	-0.079	0.540	0.257	0.040	-0.056	0.661
2006-07	0.167	0.286	0.345	0.039	0.044	0.776	0.414	0.005	0.327	0.032	-0.198	0.214
2007-08	-0.127	0.357	-0.175	0.239	-0.018	0.898	0.094	0.501	0.284	0.036	-0.002	0.990
2008-09	-0.119	0.379	-0.044	0.767	0.107	0.428	0.138	0.306	-0.071	0.601	0.081	0.555

All Directors												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	insufficient data											
2005-06												
2006-07												
2007-08												
2008-09												

All Directors - CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	insufficient data											
2005-06												
2006-07												
2007-08												
2008-09												

Part 2 - Relationship between Pay and Company Performance

H2e: Variable Pay Increase is related to Company Performance

CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.085	0.561	0.209	0.209	-0.040	0.787	0.002	0.989	0.368	0.009	0.097	0.518
2005-06	0.078	0.498	0.196	0.134	0.138	0.231	0.034	0.771	0.183	0.111	0.050	0.673
2006-07	0.036	0.778	-0.015	0.917	0.037	0.776	-0.017	0.895	0.119	0.358	-0.160	0.227
2007-08	-0.058	0.663	-0.104	0.482	0.037	0.780	0.070	0.607	0.328	0.011	0.106	0.430
2008-09	0.025	0.835	-0.211	0.115	0.007	0.952	-0.019	0.874	0.088	0.473	0.299	0.014

Finance Director												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.025	0.822	0.012	0.922	0.214	0.051	0.191	0.086	0.193	0.079	-0.043	0.704
2005-06	0.143	0.286	0.140	0.348	-0.067	0.619	0.087	0.526	0.170	0.205	-0.052	0.702
2006-07	-0.020	0.895	-0.265	0.118	0.044	0.776	-0.052	0.736	0.043	0.777	-0.190	0.217
2007-08	-0.067	0.629	0.052	0.730	0.006	0.963	0.051	0.715	0.328	0.014	-0.071	0.606
2008-09	-0.021	0.874	-0.175	0.233	0.148	0.271	0.165	0.221	0.079	0.558	0.305	0.022

All Directors												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.014	0.906	0.106	0.437	0.083	0.492	0.133	0.271	0.259	0.028	0.113	0.363
2005-06	0.026	0.823	0.094	0.466	0.043	0.711	0.077	0.509	0.027	0.813	-0.007	0.954
2006-07	-0.015	0.896	-0.127	0.036	0.015	0.897	-0.075	0.517	0.103	0.372	-0.177	0.132
2007-08	-0.069	0.545	-0.187	0.139	0.135	0.236	0.065	0.572	0.275	0.014	0.100	0.386
2008-09	0.033	0.773	-0.168	0.174	0.013	0.911	0.043	0.706	0.181	0.108	0.298	0.008

All Directors - CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.247	0.046	0.282	0.045	0.119	0.346	0.205	0.105	0.276	0.025	0.162	0.209
2005-06	0.148	0.204	0.030	0.818	0.150	0.203	0.036	0.763	0.033	0.778	-0.112	0.318
2006-07	0.203	0.102	-0.137	0.342	0.088	0.485	-0.088	0.486	-0.013	0.906	-0.130	0.253
2007-08	0.023	0.842	-0.193	0.143	0.099	0.405	0.032	0.788	0.200	0.088	-0.023	0.846
2008-09	0.158	0.185	-0.183	0.164	0.094	0.434	0.202	0.089	0.365	0.002	0.172	0.033

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4

Part 2 - Relationship between Pay and Company Performance

H2f: Total Compensation Increase is related to Company Performance

CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.001	0.997	0.246	0.131	0.015	0.921	0.004	0.980	0.418	0.003	0.152	0.303
2005-06	0.067	0.559	0.131	0.318	0.015	0.896	0.056	0.632	0.234	0.041	0.030	0.797
2006-07	0.054	0.678	0.080	0.579	-0.103	0.428	0.173	0.183	-0.028	0.828	-0.032	0.807
2007-08	0.006	0.962	-0.018	0.902	0.046	0.733	0.056	0.677	0.229	0.081	0.020	0.882
2008-09	0.034	0.779	-0.085	0.526	0.032	0.792	-0.093	0.442	-0.164	0.175	0.223	0.067

Finance Director												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	0.005	0.975	0.088	0.596	0.211	0.150	0.085	0.571	0.213	0.142	0.140	0.358
2005-06	0.224	0.092	0.129	0.386	0.069	0.610	0.188	0.166	0.223	0.095	-0.068	0.620
2006-07	0.076	0.617	-0.221	0.196	0.139	0.364	0.032	0.833	0.060	0.693	-0.219	0.154
2007-08	-0.205	0.133	0.042	0.783	0.159	0.250	0.078	0.580	0.294	0.030	0.017	0.903
2008-09	-0.162	0.229	-0.074	0.615	0.020	0.884	0.031	0.819	0.007	0.961	0.122	0.370

All Directors												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	-0.047	0.696	0.202	0.136	0.217	0.069	0.183	0.130	0.192	0.106	0.167	0.177
2005-06	0.126	0.272	0.216	0.092	0.170	0.139	0.196	0.089	0.237	0.038	-0.011	0.924
2006-07	0.111	0.335	-0.126	0.338	-0.028	0.808	0.174	0.133	0.105	0.362	-0.089	0.453
2007-08	-0.078	0.491	-0.021	0.868	0.188	0.097	0.066	0.566	0.325	0.003	0.138	0.230
2008-09	-0.087	0.443	-0.105	0.397	-0.059	0.601	-0.079	0.485	-0.039	0.733	0.160	0.162

All Directors - CEO												
Year	EPS	p-value	EBITDA	p-value	Sales	p-value	Net Inc	p-value	TSR	p-value	ROE	p-value
2004-05	-0.070	0.576	0.194	0.173	0.246	0.048	0.254	0.042	0.119	0.343	0.153	0.244
2005-06	0.177	0.129	0.269	0.038	0.136	0.246	0.192	0.104	0.184	0.117	0.008	0.946
2006-07	0.147	0.229	-0.329	0.016	0.099	0.420	0.044	0.724	0.003	0.979	-0.167	0.181
2007-08	-0.068	0.572	-0.143	0.293	0.149	0.219	0.081	0.511	0.338	0.004	0.070	0.562
2008-09	-0.052	0.663	-0.055	0.678	0.013	0.912	0.057	0.633	0.065	0.589	0.127	0.292

Part 2 - Relationship between Pay and Company Performance

H2g: The correlation between Company Performance & Total Compensation is different from that between Company Performance & Total Cash

1 = Company Performance (CP)

2 = Total Compensation (TComp)

3 = Total Cash (TCash)

N = Number of cases

Note: Negative test stat = $\text{corr}(\text{CP}, \text{TComp}) < \text{corr}(\text{CP}, \text{TCash})$ whilst positive test stat = $\text{corr}(\text{CP}, \text{TComp}) > \text{corr}(\text{CP}, \text{TCash})$.

Company Performance: EPS Growth						
CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	51	0.0600	0.1200	0.6210	-0.4809	0.6327
2005-06	80	0.0670	-0.0150	0.6470	0.8608	0.3920
2006-07	63	0.0540	0.1040	0.1780	-0.3036	0.7625
2007-08	59	0.0060	-0.0180	0.5430	0.1879	0.8516
2008-09	70	0.0340	0.1060	0.2860	-0.4957	0.6217
Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	50	0.0050	0.0960	0.6320	-0.7324	0.4675
2005-06	58	0.2240	0.0580	0.3510	1.1072	0.2730
2006-07	46	0.0760	-0.0020	0.2300	0.4134	0.6814
2007-08	55	-0.2050	-0.1500	0.7220	-0.5432	0.5892
2008-09	57	-0.1620	0.2440	0.2740	-2.6331	0.0110
All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	71	-0.0470	-0.0100	0.7720	-0.4034	0.6882
2005-06	78	0.1260	0.0510	0.3860	0.5905	0.5566
2006-07	77	0.1110	0.0920	0.2310	0.1328	0.8947
2007-08	80	-0.0780	-0.0800	0.7010	0.0228	0.9819
2008-09	80	-0.0870	0.1460	0.2450	-1.6956	<i>0.0940</i>
All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	66	-0.0700	-0.0170	0.8050	-0.6768	0.5010
2005-06	75	0.1770	0.0820	0.7140	1.0850	0.2816
2006-07	69	0.1470	0.1090	0.3900	0.2827	0.7782
2007-08	71	-0.0680	-0.0380	0.6710	-0.3057	0.7608
2008-09	72	-0.0520	0.1600	0.2200	-1.4337	0.1562

Part 2 - Relationship between Pay and Company Performance

Company Performance: EBITDA Margin						
CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	51	0.2470	0.0360	0.6210	1.7530	0.0860
2005-06	73	0.1310	-0.0460	0.6470	1.8049	0.0754
2006-07	63	0.0800	0.0360	0.1780	0.2666	0.7907
2007-08	59	-0.0180	0.0470	0.5430	-0.5100	0.6120
2008-09	70	-0.0850	-0.1340	0.2860	0.3387	0.7359
Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	50	0.0880	-0.1860	0.6320	2.3142	0.0251
2005-06	53	0.1290	0.0170	0.3510	0.7010	0.4865
2006-07	46	-0.2210	-0.0200	0.2300	-1.0877	0.2828
2007-08	55	0.0420	0.2500	0.7220	-2.1228	0.0385
2008-09	57	-0.0740	-0.2170	0.2740	-1.8356	0.0719
All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	56	0.202	0.142	0.772	0.6605	0.5118
2005-06	62	0.216	0.122	0.386	0.6666	0.5076
2006-07	60	-0.126	-0.127	0.231	0.0062	0.9951
2007-08	64	-0.021	0.085	0.701	-1.0814	0.2838
2008-09	67	-0.105	-0.132	0.245	-1.5727	0.1207
All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	51	0.1940	0.0640	0.8050	1.4888	0.1431
2005-06	60	0.2690	0.1650	0.7140	1.0782	0.2855
2006-07	53	-0.3290	-1.8700	0.3900	4.9491	<0.0001
2007-08	56	-0.1430	0.0560	0.6710	-1.8445	0.0707
2008-09	59	-0.0550	-0.1240	0.2200	-1.0846	0.2828

Part 2 - Relationship between Pay and Company Performance

Company Performance: Sales Growth						
CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	51	0.0620	0.1160	0.6210	-0.4326	0.6672
2005-06	80	0.0150	-0.1650	0.6470	1.9312	0.0571
2006-07	63	-0.1030	0.0270	0.1780	-0.7902	0.4325
2007-08	59	0.0460	0.0740	0.5430	-0.2198	0.8269
2008-09	70	0.0320	0.2290	0.2860	-1.3847	0.1707
Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	50	0.2110	0.2320	0.6320	-0.1730	0.8634
2005-06	58	0.0690	0.1860	0.3510	-0.7742	0.4422
2006-07	46	0.1390	0.0890	0.2300	0.2669	0.7909
2007-08	55	0.1590	0.1520	0.7220	0.0687	0.9455
2008-09	57	0.0200	0.2430	0.2740	-1.4011	0.1669
All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	71	0.2170	0.2830	0.7720	-0.8399	0.4039
2005-06	77	0.1700	0.1260	0.3860	0.3469	0.7297
2006-07	76	-0.0280	0.0510	0.2310	-0.5454	0.5871
2007-08	79	0.1880	0.1680	0.7010	0.2298	0.8189
2008-09	80	-0.0590	0.1110	0.2450	-1.2263	0.2238
All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	65	0.2460	0.2930	0.8050	-0.6196	0.5378
2005-06	74	0.1360	0.1580	0.7140	-0.2483	0.8046
2006-07	68	0.0990	0.1250	0.3900	-0.1914	0.8488
2007-08	70	0.1490	0.1920	0.6710	-0.4421	0.6598
2008-09	72	0.0130	0.0760	0.2200	-0.4201	0.6757

Part 2 - Relationship between Pay and Company Performance

Company Performance: Net Income Growth						
CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	51	0.0400	0.0680	0.6210	-0.2233	0.8242
2005-06	80	0.0560	0.0130	0.6470	0.4500	0.6540
2006-07	63	0.1730	0.0740	0.1780	0.6065	0.5465
2007-08	59	0.0560	-0.0080	0.5430	0.5022	0.6175
2008-09	70	-0.0930	0.2040	0.2860	-2.1050	0.0390
Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	50	0.0850	0.0640	0.6320	0.1684	0.8670
2005-06	58	0.1880	0.2490	0.3510	-0.4109	0.6827
2006-07	46	0.0320	0.0550	0.2300	-0.1217	0.9037
2007-08	55	0.0780	0.0100	0.7220	0.6611	0.5114
2008-09	57	0.0310	0.1640	0.2740	-0.8215	0.4150
All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	70	0.1830	0.1330	0.7720	0.6164	0.5397
2005-06	76	0.1960	0.2300	0.3860	-0.2704	0.7876
2006-07	76	0.1740	0.0620	0.2310	0.7825	0.4365
2007-08	77	0.0660	-0.0110	0.7010	0.6139	0.5412
2008-09	80	-0.0790	0.1130	0.2450	-1.3884	0.1690
All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	64	0.2540	0.1960	0.8050	0.7498	0.4562
2005-06	73	0.1920	0.2330	0.7140	-0.4665	0.6423
2006-07	68	0.0440	0.0790	0.3900	-0.2562	0.7986
2007-08	68	0.0810	0.0140	0.6710	0.6691	0.5058
2008-09	72	0.0570	0.0980	0.2200	-0.2740	0.7849

Part 2 - Relationship between Pay and Company Performance

Company Performance: TSR						
CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	51	0.4580	0.3430	0.6210	1.0286	0.3088
2005-06	80	0.2340	0.0290	0.6470	2.2319	0.0285
2006-07	63	-0.0280	0.1230	0.1780	-0.9201	0.3612
2007-08	59	0.2290	0.1460	0.5430	0.6668	0.5076
2008-09	70	-0.1640	0.2470	0.2860	-3.0021	0.0038
Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	50	0.2130	0.1990	0.6320	0.1148	0.9091
2005-06	58	0.2230	0.2210	0.3510	0.0135	0.9893
2006-07	46	0.0600	0.2400	0.2300	-0.9771	0.3340
2007-08	55	0.2940	0.1960	0.7220	0.9912	0.3262
2008-09	57	0.0070	0.3180	0.2740	-2.0023	0.0503
All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	72	0.1920	0.1840	0.7720	0.1004	0.9203
2005-06	77	0.2370	0.0470	0.3860	1.5179	0.1333
2006-07	77	0.1050	0.3270	0.2310	-1.6204	0.1094
2007-08	80	0.3250	0.2210	0.7010	1.2466	0.2163
2008-09	80	-0.0390	0.2510	0.2450	-2.1488	0.0348
All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	66	0.1190	0.0920	0.8050	0.3456	0.7308
2005-06	74	0.1840	0.1930	0.7140	-0.1024	0.9187
2006-07	69	0.0030	0.2720	0.3900	-2.0673	0.0426
2007-08	71	0.3380	0.2430	0.6710	1.0249	0.3090
2008-09	72	0.0650	0.2250	0.2200	-1.0893	0.2798

Part 2 - Relationship between Pay and Company Performance

Company Performance: ROE						
CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	51	0.1460	0.0050	0.6210	1.1410	0.2595
2005-06	80	0.0300	0.0590	0.6470	-0.3034	0.7624
2006-07	63	-0.0320	-0.2800	0.1780	1.5552	0.1251
2007-08	59	0.0200	-0.0330	0.5430	0.4155	0.6794
2008-09	70	0.2230	0.1710	0.2860	0.3664	0.7152
Financial Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	50	0.1400	-0.0520	0.6320	1.5761	0.1217
2005-06	58	-0.0680	-0.1910	0.3510	0.8146	0.4188
2006-07	46	-0.2190	-0.0330	0.2300	-1.0055	0.3202
2007-08	55	0.0170	-0.0070	0.7220	0.2322	0.8173
2008-09	57	0.1220	0.3610	0.2740	-1.5530	0.1263
All Directors						
Year	N	r12	r13	r23	test stat	p-value
2004-05	67	0.1670	0.0590	0.7720	1.3057	0.1963
2005-06	75	-0.0110	-0.0550	0.3860	0.3374	0.7368
2006-07	74	-0.0890	-0.1770	0.2310	0.6070	0.5458
2007-08	77	0.1380	0.0420	0.7010	1.0814	0.2830
2008-09	78	0.1600	0.1170	0.2450	0.3073	0.7594
All Directors - CEO						
Year	N	r12	r13	r23	test stat	p-value
2004-05	60	0.1530	0.0440	0.8050	1.3457	0.1837
2005-06	72	0.0080	-0.0470	0.7140	0.6058	0.5466
2006-07	18	0.1320	0.3000	0.3900	-0.6157	0.5473
2007-08	70	0.0700	0.0450	0.6710	0.2529	0.8011
2008-09	71	0.1270	0.0920	0.2200	0.2331	0.8164

H2h: The strength of the relation between Total Cash and Company Performance has increased over the period 2004-2009

Refer to the results for H2c above to observe trend.

H2i: The strength of the relation between Total Compensation and Company Performance has increased over the period 2004-2009

Refer to the results for H2f above to observe trend.

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

Factors:	<ul style="list-style-type: none"> - Absolute base salary level - Total compensation level - Variable pay as a percentage of total compensation (variable pay = annual bonus + long-term incentives) - Long-term incentives as a percentage of total compensation - Company size - Board size (total number of executive and non-executive directors) - Non-executive director/executive director ratio - Remuneration committee size - Tenure - Positions (comparing CEOs to other executive directors) - Number of long-term incentive plans in operation - Maximum annual bonus grant size - Industry
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Company Performance Measures:

Measure 1:	One-year EPS Growth (EPS)
Data source:	Datastream
Definition:	Earnings per Share Growth is based on Basic EPS before Extraordinary items and is calculated using the following formula: $[(\text{EPS for the current period} - \text{EPS for the previous period}) / (\text{EPS for the previous period})] * 100$
Measure 2:	EBITDA Margin (EBITDA)
Data source:	Bloomberg
Definition:	EBITDA Margin is calculated as trailing twelve month EBITDA divided by trailing twelve month sales, times 100.
Measure 3:	One-year Sales/Revenue Growth (Sales)
Data source:	Datastream
Definition:	Sales/Revenue year change (growth, in percentage) is calculated using the following formula: $[(\text{Net Sales/Revenue for the current period} - 1) / (\text{Net Sales/Revenue for the last period})] * 100$
Measure 4:	One-year Net Income Growth (Net Inc)
Data source:	Bloomberg
Definition:	Net income year change (growth, in percentage) is calculated using the following formula: $[(\text{Net Income for the current period} - 1) / (\text{Net Income for the last period})] * 100$

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

Measure 5:	Total Shareholder Return (TSR)
Data source:	Datastream
Definition:	TSR represents a theoretical growth in value of a share holding over a specified period, assuming that dividends are re-invested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date. It is calculated using the following formula with Pricebegin = share price at beginning of period, Priceend = share price at end of period and Dividends = dividends paid: $\text{TSR} = (\text{Priceend} - \text{Pricebegin}) + \text{Dividends} / \text{Pricebegin}$
Measure 6:	Return on Equity (ROE)
Data source:	Bloomberg
Definition:	Return on equity (in percentage) is calculated as trailing 12 month Net Income (Losses) minus trailing 12 month Cash Preferred Dividends, divided by Average of Total Common Equity, times 100.
Incumbent groups:	CEO Finance Director (Fin Dir) All directors (All Dir) All directors excluding CEOs (All Dir - CEO)
P-value interpretation:	The smaller the p-value, the more significant is the result Significance association levels: Red + Bold: significance level at 5% (0.05) <i>Blue + Italic:</i> significance level at 10% (0.1) Black: no association
Test stat interpretation:	Test statistic measures how many standard deviation the partial correlation is away from 0. The closer the test stat to 0, the weaker the correlation (0 = no correlation). Negative test stat means when one variable increases the other decreases (i.e., a reversed relationship) and positive test stat means when one increases so does the other.

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3a(i): The higher the level of base salary, the stronger the relationship between Total Cash and Company Performance

CEO - Base Salary vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.7200	0.2400	-1.8400	0.0320	-0.6800	0.2480	0.6900	0.2960	0.2100	0.4150
EBITDA	-0.6900	0.2500	-0.6100	0.2710	0.5500	0.2910	1.7200	0.0450	-0.0700	0.4700
Sales	0.0100	0.4970	-1.8000	0.0380	-1.3300	<i>0.0930</i>	0.0900	0.4630	-0.0600	0.4780
Net Inc	-2.6900	0.0040	0.9100	0.1840	-1.3700	<i>0.0870</i>	-0.7500	0.2280	-0.4800	0.3170
TSR	1.4100	<i>0.0820</i>	-0.3600	0.3590	0.9400	0.1760	1.3100	<i>0.0980</i>	-0.6900	0.2460
ROE	1.0200	0.1560	-0.7400	0.2300	-0.9700	0.1680	0.5100	0.3040	-0.5300	0.2980

Finance Director - Base Salary vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	2.4700	0.0085	-1.1200	0.1340	-1.9700	0.0270	-0.0400	0.4830	-0.0100	0.4950
EBITDA	0.0500	0.4800	0.7900	0.2160	-0.0400	0.4830	0.7700	0.2210	0.7400	0.2320
Sales	-1.3500	<i>0.0910</i>	1.0000	0.1610	-0.4100	0.3430	-2.0500	0.0220	-0.2000	0.4210
Net Inc	-0.5600	0.2880	-1.1100	0.1370	-0.6900	0.2470	-0.8600	0.1960	-0.7000	0.2440
TSR	1.0800	0.1420	-0.3700	0.3580	0.8300	0.2050	-0.8600	0.1960	0.1400	0.4430
ROE	0.4600	0.3240	-1.0500	0.1500	-0.4700	0.3200	1.1400	0.1300	0.7600	0.2250

All Directors - Base Salary vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.7100	0.0450	0.1300	0.4480	-0.7200	0.2360	-0.2700	0.3920	0.5200	0.3030
EBITDA	0.5000	0.3080	2.6800	0.0050	0.7700	0.2220	1.3100	<i>0.0970</i>	0.0300	0.4890
Sales	0.0600	0.4770	-1.3500	<i>0.0910</i>	-0.5700	0.2850	-1.2800	0.1020	-0.9500	0.1720
Net Inc	-1.3000	<i>0.0960</i>	-0.6000	0.2740	-0.9800	0.1660	-0.5300	0.3000	-1.1100	0.1360
TSR	0.6300	0.2640	1.4600	<i>0.0740</i>	1.1000	0.1380	0.6400	0.2630	-0.3900	0.3470
ROE	1.0600	0.1460	-0.2200	0.4130	-0.8600	0.1960	0.8200	0.2080	0.1800	0.4300

All Directors - CEO - Base Salary vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.7200	0.2360	-1.8500	0.0340	-0.6800	0.2480	0.6900	0.2460	0.2100	0.4160
EBITDA	-0.6900	0.2450	-0.6100	0.2710	0.5500	0.2960	1.7200	0.0450	-0.0700	0.4700
Sales	0.0100	0.4970	-1.8000	0.0380	-1.3300	<i>0.0930</i>	-0.7500	0.2280	-0.0600	0.4780
Net Inc	-2.6900	0.0045	0.9100	0.1840	-1.3700	<i>0.0870</i>	0.0900	0.4630	-0.4800	0.3170
TSR	1.4100	<i>0.0820</i>	-0.3600	0.3590	0.9400	0.1760	1.3100	<i>0.0980</i>	-0.0700	0.4700
ROE	1.0300	0.1670	-0.7300	0.2310	-0.9800	0.1690	0.7700	0.4400	0.2100	0.4150

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3a(ii): The higher the level of Base Salary, the stronger the relationship between Total Compensation and Company Performance

CEO - Base Salary vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-1.6400	0.0520	-0.6200	0.2680	-1.9400	0.0280	0.4000	0.3450	-0.4800	0.3170
EBITDA	1.0800	0.1430	0.8200	0.2080	-0.8500	0.2000	-1.7400	0.0430	-0.1400	0.4450
Sales	-1.9100	0.0300	-1.4400	0.0780	-1.5800	0.0590	-0.1000	0.4620	0.2300	0.4090
Net Inc	-1.5300	0.0650	-1.6200	0.0550	-0.4400	0.3320	-0.8100	0.2100	-0.0100	0.4960
TSR	-1.4100	0.0710	-1.7500	0.0420	-2.7000	0.0045	-1.3900	0.0840	-1.1100	0.1350
ROE	-1.8300	0.0350	-0.2600	0.3990	-0.2900	0.3860	-1.7000	0.0460	-0.5800	0.2820

Finance Director - Base Salary vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.1500	0.4390	-1.2400	0.1110	-1.9400	0.0290	-0.0100	0.4950	0.4500	0.3250
EBITDA	-0.9200	0.1810	-2.0700	0.0220	-0.4200	0.3370	0.4000	0.3440	-1.6100	0.0580
Sales	-0.7900	0.2150	-0.2800	0.3890	-0.3400	0.3670	-1.3600	0.0890	0.1600	0.4370
Net Inc	-0.1800	0.4280	-1.1600	0.1250	-0.2400	0.4040	-0.0200	0.4910	-1.0600	0.1480
TSR	-1.5000	0.0700	-1.3200	0.0970	1.2400	0.1110	-1.5100	0.0680	-0.8900	0.1890
ROE	0.9800	0.1650	-0.6600	0.2550	-1.4200	0.0810	-1.7800	0.0400	0.9100	0.1850

All Directors - Base Salary vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.8900	0.1890	0.3200	0.3730	-0.2700	0.3940	-0.0100	0.4960	0.2400	0.4040
EBITDA	-1.2400	0.1100	-2.0300	0.0230	0.4700	0.3200	-1.5300	0.0650	-1.2200	0.1140
Sales	-1.7700	0.0400	-1.8700	0.0320	-0.5000	0.3090	-0.7300	0.2330	-0.5600	0.2870
Net Inc	-2.4700	0.0080	-1.2400	0.1100	0.6800	0.2500	0.5700	0.2860	-1.4500	0.0760
TSR	-0.0700	0.4700	-0.0500	0.4800	-0.3400	0.3680	-1.9300	0.0280	-0.6300	0.2660
ROE	0.0100	0.4960	-0.4900	0.3120	0.8000	0.2140	-1.6700	0.0490	0.2000	0.4220

All directors - CEO - Base Salary vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.1500	0.4400	-1.2800	0.1010	-0.0600	0.4760	-0.6300	0.2660	0.2500	0.4010
EBITDA	-1.9300	0.0290	-1.5000	0.0700	0.0600	0.4760	-0.4900	0.3110	-1.4000	0.0850
Sales	-0.4000	0.3960	-2.5800	0.0060	-0.4500	0.3280	-0.8900	0.1880	-0.0500	0.4810
Net Inc	-0.9100	0.1820	-1.9100	0.0300	-0.2600	0.4000	0.2100	0.4180	-0.8900	0.1870
TSR	-0.9300	0.1770	-0.1200	0.4520	-0.0200	0.4910	-0.2900	0.3870	-1.1200	0.1340
ROE	0.9500	0.1740	-0.7400	0.2320	-1.4000	0.0830	-0.3000	0.3830	-0.0400	0.4830

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3b(i): The higher the level of Total Compensation, the stronger the relationship between Total Cash and Company Performance

CEO - Total Compensation vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.0700	0.4710	-1.5600	0.0620	-0.8500	0.2000	-2.6100	0.0050	-1.3100	0.0990
EBITDA	0.1300	0.4470	0.0100	0.4970	-0.7200	0.2360	-1.0800	0.1430	-2.3700	0.1200
Sales	-0.6600	0.2560	0.0800	0.4700	-0.2400	0.4070	0.4200	0.3390	1.0900	0.1410
Net Inc	-0.1900	0.4260	0.4200	0.3380	-0.3600	0.3610	-0.1200	0.4540	-1.3600	0.0890
TSR	-1.5400	0.0640	-0.3200	0.3750	0.2000	0.4190	-0.2400	0.4060	-3.3600	0.0010
ROE	-0.7400	0.2310	-0.1200	0.4530	0.2300	0.4100	0.0500	0.4800	-1.9000	0.0320

Finance Director - Total Compensation vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.0500	0.4790	1.2200	0.1140	0.3500	0.3650	-3.2700	0.0010	1.3500	0.0920
EBITDA	0.3100	0.3790	0.1000	0.4590	0.8000	0.2140	0.2400	0.4040	0.3900	0.3500
Sales	-0.6900	0.2460	-1.6900	0.0590	-3.0500	0.0020	0.1500	0.4400	-0.9700	0.1680
Net Inc	0.2900	0.3860	1.2000	0.1170	-3.4500	0.0010	0.9100	0.1820	-1.4400	0.0880
TSR	1.5200	0.0680	-1.8400	0.0360	-2.3300	0.0120	-0.8700	0.1950	-0.5100	0.3050
ROE	-0.4400	0.3290	0.1600	0.4350	-0.2400	0.4050	0.7700	0.2220	-1.9500	0.0290

All Directors - Total Compensation vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.0400	0.4840	-0.6900	0.2470	0.6200	0.2720	-3.5600	0.0010	0.1100	0.4570
EBITDA	0.1000	0.4620	0.7800	0.2190	-0.0700	0.4710	-0.7300	0.2340	-1.1100	0.1360
Sales	-0.4100	0.3390	-0.2600	0.3970	-1.6500	0.0610	-0.4300	0.3330	-1.1200	0.1330
Net Inc	-0.4000	0.3420	0.9300	0.1770	-1.9500	0.0350	0.4500	0.3250	-1.6900	0.0470
TSR	0.9600	0.1700	-0.0800	0.4680	-0.2400	0.4060	-0.3400	0.3690	-1.2300	0.1120
ROE	-0.6000	0.2760	-0.4800	0.3170	0.3000	0.3850	0.0600	0.4780	-0.5600	0.2880

All Directors - CEO - Total Compensation vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.5500	0.2930	-1.7500	0.0420	-0.9300	0.1780	-1.8700	0.0320	-0.1900	0.4230
EBITDA	0.0500	0.4810	0.5000	0.3100	-1.5600	0.0620	0.5000	0.3110	-0.8400	0.2030
Sales	-0.7500	0.2260	0.0800	0.4670	-1.0000	0.1590	0.0200	0.4940	-0.4900	0.3120
Net Inc	-0.4100	0.3420	0.5200	0.3010	0.1200	0.4520	0.7800	0.2170	-1.2100	0.1160
TSR	-1.3800	0.0860	0.8100	0.2090	-0.3800	0.3530	0.4100	0.3400	-0.9700	0.1670
ROE	-0.7000	0.2420	0.1100	0.4070	0.0000	0.5000	0.2900	0.3850	0.4200	0.3390

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3b(ii): The higher the level of Total Compensation, the stronger the relationship between Total Compensation and Company Performance

CEO - Total Compensation vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.8000	0.4130	-1.7900	0.0390	-1.2800	0.1030	-1.9900	0.0250	0.6200	0.2680
EBITDA	-1.0700	0.1440	-0.6300	0.2640	-0.1500	0.4390	-0.3300	0.3700	-0.0800	0.4680
Sales	0.3200	0.3760	-0.4000	0.3440	-0.7500	0.2270	-0.2200	0.4120	-1.1300	0.1320
Net Inc	-2.0700	0.0210	0.2100	0.4170	0.1300	0.4480	0.2800	0.3910	-0.8200	0.2080
TSR	-2.0300	0.0230	-1.5300	<i>0.0660</i>	-1.5600	<i>0.0610</i>	-1.8600	0.0330	-1.3900	<i>0.0820</i>
ROE	-0.3100	0.3800	-0.5400	0.2950	-0.7500	0.2270	0.1600	0.4360	-0.2300	0.4100

Finance Director -Total Compensation vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.4400	0.3320	-0.9600	0.1710	-0.9800	0.1660	-1.1500	0.1280	-2.0400	0.0230
EBITDA	0.7400	0.2310	-0.4100	0.3420	0.1000	0.4580	-0.0100	0.4980	-1.5600	<i>0.0630</i>
Sales	-0.6300	0.2640	-3.4100	0.0010	-4.6500	0.0000	-0.3500	0.3650	-1.4100	<i>0.0820</i>
Net Inc	-0.8600	0.1960	-1.4100	<i>0.0820</i>	-5.2400	0.0000	-0.5600	0.2880	-1.5600	<i>0.0630</i>
TSR	-1.7400	0.0440	-1.5700	<i>0.0620</i>	-2.5000	0.0080	-0.8600	0.1970	-2.0600	0.0220
ROE	-0.6500	0.2600	-0.2200	0.4150	-0.9000	0.1880	1.0100	0.1580	-0.6600	0.2560

All Directors - Total Compensation vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.0500	0.4810	-0.5900	0.2770	-1.2600	0.1060	-0.9400	0.1740	-1.5700	<i>0.0600</i>
EBITDA	-0.1400	0.4460	-0.9500	0.1740	-1.5200	<i>0.0660</i>	0.0000	0.5000	-1.1200	0.1340
Sales	-0.4700	0.3190	-0.1400	0.4450	-1.5500	<i>0.0630</i>	-1.1800	0.1200	-1.1000	0.1370
Net Inc	-1.3000	<i>0.0990</i>	0.0100	0.4970	0.6700	0.2520	-1.4300	<i>0.0880</i>	-0.1300	0.4460
TSR	-1.3600	<i>0.0910</i>	-1.7900	0.0400	-1.3000	<i>0.0980</i>	-2.2400	0.0140	-1.3700	<i>0.0870</i>
ROE	-0.6400	0.2630	-0.2500	0.4020	-1.9100	0.0300	1.1400	0.1280	0.2100	0.4180

All directors - CEO - Total Compensation vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.3300	0.3700	-0.2300	0.4090	-1.3900	<i>0.0850</i>	-0.4800	0.3170	-1.5500	<i>0.0620</i>
EBITDA	-0.2300	0.4110	-0.7600	0.2240	-1.8900	0.0320	1.1800	0.1220	-1.2200	0.1130
Sales	-0.9200	0.1800	-0.7400	0.2300	-0.1100	0.4580	-0.7200	0.2370	-1.1500	0.1280
Net Inc	-1.2200	0.1130	0.0600	0.4750	-1.5900	<i>0.0580</i>	1.0300	0.1540	-0.4600	0.3250
TSR	-1.6000	<i>0.0570</i>	-2.4900	0.0070	-1.3100	<i>0.0980</i>	-1.9400	0.0180	-0.2400	<i>0.0100</i>
ROE	-0.7700	0.2230	-0.2800	0.3890	-0.6900	0.2460	1.1800	0.1200	-0.0400	0.4860

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3c(i): The higher the proportion of actual Variable Pay, the stronger the relationship between Total Cash and Company Performance

CEO - Proportion of actual Variable Pay vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.4300	0.3350	2.4500	0.0090	0.7600	0.2250	0.6700	0.2530	1.8900	0.0330
EBITDA	0.4600	0.3250	-0.2300	0.4120	1.6200	<i>0.0560</i>	-1.2600	0.1570	-0.8300	0.2050
Sales	1.2400	0.1100	0.0600	0.4770	0.9500	<i>0.1730</i>	0.3100	0.3800	0.0500	0.4800
Net Inc	0.1800	0.4270	0.5200	0.3020	-0.7700	0.2220	0.0300	0.4890	1.0600	0.1480
TSR	3.2700	0.0010	1.4900	<i>0.0710</i>	0.4700	0.3210	1.3200	<i>0.0960</i>	2.4700	0.0090
ROE	1.5900	<i>0.0590</i>	0.1500	0.4430	-0.1300	0.4470	0.3000	0.3830	0.0700	0.2440

Finance Director - Proportion of actual Variable Pay vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.0300	0.1550	0.9400	0.1770	1.4100	<i>0.0830</i>	1.9200	0.0300	2.4200	0.0100
EBITDA	-1.2200	0.1150	-0.1400	0.4440	0.4300	0.3330	-1.0600	0.1480	1.3600	<i>0.0910</i>
Sales	0.3700	0.3580	1.2600	0.1070	1.4700	<i>0.0750</i>	0.4400	0.3320	2.0600	0.0230
Net Inc	0.1400	0.4440	1.7200	0.0460	1.5300	<i>0.0670</i>	-0.0100	0.4990	1.2900	0.1030
TSR	1.7200	0.0450	1.6500	<i>0.0520</i>	1.2800	0.1050	1.4600	<i>0.0740</i>	1.3100	<i>0.0980</i>
ROE	0.4700	0.3210	0.3600	0.3610	-0.8200	0.2080	0.0500	0.4820	2.2100	0.0160

All Directors - Proportion of actual Variable Pay vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.9000	0.1850	0.2800	0.3880	0.8300	0.2040	3.2200	0.0010	0.9400	0.1760
EBITDA	0.2300	0.4090	1.3300	<i>0.0940</i>	0.8700	0.1950	2.3000	0.0130	2.1400	0.0180
Sales	-0.9900	0.1630	0.3700	0.3660	-1.1300	0.1320	-1.1100	0.1350	2.3400	0.0110
Net Inc	0.4000	0.3440	1.0800	0.1430	-1.2000	0.1170	-1.1600	0.1260	2.3200	0.0120
TSR	1.5000	<i>0.0700</i>	1.5200	<i>0.0680</i>	0.9200	0.1820	2.0700	0.0220	1.4100	<i>0.0830</i>
ROE	2.0000	0.0250	-0.0200	0.4900	0.4300	0.3350	-1.1700	0.1230	0.0300	0.4900

All Directors - CEO - Proportion of actual Variable Pay vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.9500	0.1720	1.2500	0.1070	-0.4100	0.3420	3.3400	0.0010	1.1400	0.1290
EBITDA	0.5200	0.3010	-0.5500	0.2910	1.3900	0.0860	2.4300	0.0090	2.4200	0.0100
Sales	0.1430	4.4290	1.2600	0.1070	1.1300	<i>0.1320</i>	-1.1400	0.1300	2.1000	0.0200
Net Inc	1.2100	0.1660	0.2400	0.4040	-0.5200	0.3010	1.3800	<i>0.0850</i>	2.4900	0.0080
TSR	1.3100	<i>0.0980</i>	1.4200	<i>0.0810</i>	1.0800	0.1410	1.6700	0.0490	1.6100	<i>0.0510</i>
ROE	2.2000	0.0160	0.9400	0.1760	0.1000	0.4580	-1.1000	0.1380	0.9200	0.1800

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3c(ii): The higher the proportion of actual Variable Pay, the stronger the relationship between Total Compensation and Company Performance

CEO - Proportion of actual Variable Pay vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.0900	0.1400	0.3800	0.3530	-0.4400	0.3300	1.4700	0.0730	0.3500	0.3620
EBITDA	0.5500	2.9400	0.1300	0.4500	0.1600	0.4350	-0.5100	0.3070	1.1500	0.1280
Sales	0.1300	4.4900	0.8700	0.1940	0.1200	0.4520	1.1000	0.1380	1.7900	0.0400
Net Inc	-1.2000	0.1170	0.2400	0.4050	0.5300	0.2990	0.5600	0.2900	1.7800	0.0410
TSR	1.6400	0.0530	2.7600	0.0040	0.0100	0.4980	1.4800	0.0720	2.4300	0.0190
ROE	0.8400	0.2020	0.1200	0.4540	0.5200	0.3010	-1.3900	0.0840	0.1700	0.4350

Finance Director - Proportion of actual Variable Pay vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.1800	0.1220	0.4000	0.3470	1.2000	0.1180	0.3400	0.3690	1.0900	0.1410
EBITDA	1.3500	0.0920	-0.5500	0.2910	1.2100	0.1180	-0.5500	0.2930	1.6700	0.0520
Sales	1.1400	0.1300	-2.6600	0.0050	1.0300	0.1540	0.6200	0.2680	2.6100	0.0060
Net Inc	-0.2100	0.4690	-0.1000	0.4610	1.1500	0.1280	-0.9400	0.1760	2.9000	0.0030
TSR	2.8400	0.0030	1.3900	0.0850	0.9000	0.1870	0.1600	0.4350	0.5600	0.2900
ROE	-1.2400	0.1100	0.7900	0.2670	0.7500	0.2300	-0.1400	0.4440	2.1500	0.0190

All Directors - Proportion of actual Variable Pay vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.0500	0.1480	0.0600	0.4750	0.8200	0.2070	0.5200	0.3020	3.6800	0.0001
EBITDA	0.2500	0.4000	0.1400	0.4420	1.9300	0.0300	0.7800	0.4180	1.8400	0.0360
Sales	-0.1900	0.4250	0.5900	0.2770	1.0000	0.1590	0.1200	0.4530	0.8700	0.1930
Net Inc	-0.0200	0.4900	1.2400	0.1090	0.8900	0.1890	-0.5400	0.2940	0.2300	0.4090
TSR	1.4200	0.0790	1.9200	0.0300	0.2200	0.4120	1.8300	0.0360	0.2500	0.4000
ROE	1.2800	0.1020	0.2600	0.3980	1.8100	0.0370	0.4300	0.3340	1.5100	0.0660

All Directors - CEO - Proportion of actual Variable Pay vs (relationship between Total Compensation vs Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.8400	0.2020	0.4200	0.3370	-0.8900	0.1880	0.5500	0.2920	3.6800	0.0010
EBITDA	0.9600	0.1700	0.2200	0.4120	1.9400	0.0290	1.4500	0.0760	2.5000	0.0080
Sales	-1.8100	0.0370	0.2400	0.4050	0.3000	0.3830	0.7500	0.2270	1.0700	0.1440
Net Inc	-0.5500	0.2920	1.7000	0.0470	0.2600	0.3980	0.0700	0.4720	0.2400	0.4070
TSR	3.2500	0.0010	3.5100	0.0010	1.3000	0.0980	1.4700	0.0730	1.1300	0.1330
ROE	1.7100	0.0430	0.2700	0.3930	0.2800	0.3900	-0.2400	0.4060	0.8900	0.1900

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3d(i): The higher the proportion of LTI, the stronger the relationship between Total Cash and Company Performance

CEO - Proportion of LTI vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.5100	0.3050	-0.6200	0.2680	-0.9400	0.1760	1.3800	0.0860	Insufficient data	
EBITDA	0.5800	0.2820	-0.0400	0.4850	-0.2100	0.4170	-1.1300	0.1320		
Sales	-0.5500	0.2920	1.1300	0.1310	0.1300	0.4500	0.3900	0.3500		
Net Inc	-0.3200	0.3740	-0.6700	0.2510	-0.0100	0.4990	1.0700	0.1450		
TSR	-0.4800	0.3170	0.0400	0.4840	-0.3200	0.3740	0.1400	0.4450		
ROE	-1.7100	0.0460	0.1500	0.4400	-1.7300	0.0440	-0.4700	0.3190		

Finance Director - Proportion of LTI vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.8400	0.2010	-0.1600	0.4360	0.7900	0.2170	0.2400	0.4070	Insufficient data	
EBITDA	0.2400	0.4050	-0.3200	0.3760	0.1600	0.4370	-0.0900	0.4630		
Sales	-0.8600	0.1970	-0.7300	0.2350	-0.1000	0.4590	-0.8400	0.2010		
Net Inc	-3.0300	0.0020	0.3300	0.3710	0.2900	0.3880	-0.4800	0.3180		
TSR	-0.0200	0.4920	0.4600	0.3280	0.4800	0.3170	1.2900	0.1010		
ROE	-1.3100	0.0970	-0.1100	0.4540	0.1400	0.4450	-2.3100	0.0130		

H3d(ii): The higher the proportion of LTI, the stronger the relationship between Total Compensation and Company Performance

CEO - Proportion of LTI vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-1.4500	0.0760	-1.7600	0.0420	-3.4900	0.0010	0.1400	0.4450	Insufficient data	
EBITDA	0.3800	0.3540	-0.5100	0.3050	-0.5900	0.2780	-1.4500	0.0760		
Sales	0.2000	0.4210	0.1700	0.4310	-0.6900	0.2460	0.7200	0.2370		
Net Inc	-1.3100	0.0980	-0.4100	0.3410	-1.1100	0.1360	-1.1000	0.1380		
TSR	-1.6500	0.0520	1.4700	0.0730	0.9100	0.1820	1.5400	0.0650		
ROE	-0.6800	0.2510	0.4100	0.3410	0.7500	0.2770	-0.5000	0.3090		

Finance Director - Proportion of LTI vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-1.0500	0.1500	-0.4800	0.3170	0.6600	0.2560	-0.7800	0.2190	Insufficient data	
EBITDA	-0.1200	0.4510	-0.7000	0.2450	0.7500	0.2280	-0.4800	0.3180		
Sales	-1.8300	0.0360	-2.0100	0.0250	-0.0600	0.4760	-0.5000	0.3090		
Net Inc	-2.8700	0.0030	0.1800	0.4280	1.6500	0.0540	-1.3900	0.0860		
TSR	-1.7400	0.0440	1.3500	0.0920	1.4500	0.0770	1.6700	0.0490		
ROE	0.8700	0.1940	-0.1700	0.4320	-0.3900	0.3480	-1.9400	0.0290		

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3e(i): The larger the company (in terms of market capitalisation), the stronger the relationship between Total Cash and Company Performance

CEO - Company Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-1.7800	0.0400	-0.3800	0.3510	-1.3100	<i>0.0980</i>	0.0300	0.4900	1.9700	0.0270
EBITDA	-0.6600	0.2570	0.4000	0.3470	-1.1300	0.1320	1.0100	0.1570	-2.8800	0.0040
Sales	0.2600	0.3980	-0.6100	0.2740	-0.0800	0.4680	0.1600	0.4380	-3.4900	0.0010
Net Inc	1.3500	<i>0.0910</i>	-0.2600	0.3970	-0.4100	0.3410	-0.7700	0.2220	-3.3500	0.0010
TSR	-2.0400	0.0230	0.0800	0.4680	0.6100	0.2730	0.6100	0.2730	-0.6200	0.2680
ROE	0.6200	0.2690	0.0500	0.4810	-0.2400	0.4050	1.1500	0.1270	-1.7300	0.0460

Finance Director - Company Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.1900	0.1200	-1.4100	<i>0.0810</i>	-0.3300	0.3730	-0.3500	0.3640	0.4400	0.3320
EBITDA	-0.7400	0.2310	-0.3700	0.3580	-2.3600	0.0130	0.2900	0.3870	-0.8400	0.2040
Sales	0.0400	0.4820	0.0300	0.4880	-1.7700	0.0420	-0.8000	0.2130	0.9600	0.1720
Net Inc	0.4700	0.3190	-0.8000	0.2130	1.8000	0.0400	-1.1700	0.1230	0.8700	0.1930
TSR	-1.0000	0.1610	1.0100	0.1580	-4.8300	0.0000	-0.3600	0.3590	-1.3400	<i>0.0930</i>
ROE	-0.0200	0.4930	-1.0600	0.1460	-0.3200	0.3750	0.7500	0.2300	-0.2500	0.4020

All Directors - Company Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.2300	0.1110	-1.3400	<i>0.0920</i>	-0.9800	0.1640	-1.5730	<i>0.0620</i>	-0.5900	0.2800
EBITDA	-0.6300	0.2650	-0.9800	0.1640	0.9900	0.1630	0.6000	0.2770	-0.4200	0.3380
Sales	0.5400	0.2940	-0.6800	0.2500	-0.8200	0.2070	-0.1600	0.4380	-0.4400	0.3310
Net Inc	0.4100	0.3420	-0.5100	0.3070	-0.9900	0.1630	-1.5700	<i>0.0610</i>	-0.8800	0.1900
TSR	-0.9100	0.1820	-0.1900	0.4230	-3.0100	0.0020	0.0100	0.4950	-1.3100	<i>0.0970</i>
ROE	0.7800	0.2690	-0.1300	0.4470	-0.7300	0.2340	0.8100	0.2110	-0.6000	0.2760
									-1.6800	0.0490

All Directors - CEO - Company Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.8900	0.1870	-1.6800	0.0490	-0.8300	0.2060	-1.6900	0.0480	-0.1700	0.4310
EBITDA	-0.6000	0.2750	-0.7600	0.2240	1.7400	0.0440	0.6700	0.2540	-0.6400	0.2630
Sales	0.6400	0.2620	-0.2700	0.3960	-1.4300	<i>0.0880</i>	0.0700	0.4710	-0.3300	0.3690
Net Inc	-0.0900	0.4650	-0.5100	0.3040	-1.2900	<i>0.0990</i>	-0.9400	0.1760	-0.9800	0.1650
TSR	-0.3100	0.3800	0.5700	0.2850	-3.0000	0.0020	-0.0800	0.4680	-1.6800	0.0490
ROE	0.4200	0.3380	-0.0100	0.4950	-0.4700	0.3210	0.7500	0.2290	0.4000	0.3470

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3e(ii): The larger the company (in terms of Market Capitalisation), the stronger the relationship between Total Compensation and Company Performance

CEO - Company Size vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.4900	0.3130	-1.1600	0.1250	-0.2000	0.4150	0.0000	0.4990	-1.4300	0.0800
EBITDA	-0.5900	0.2790	-0.4200	0.3360	-0.8000	0.2120	-1.2700	0.1050	-2.7600	0.0040
Sales	-0.5300	0.2980	-0.4500	0.3280	-0.2900	0.3880	-0.1100	0.4560	-2.3200	0.0130
Net Inc	0.3100	0.3800	-0.6800	0.2500	-0.8700	0.1950	-0.7600	0.2250	-1.7000	0.0480
TSR	-0.2000	0.4210	-0.0300	0.4870	-1.6500	0.0520	1.0100	0.1580	-0.4800	0.3150
ROE	-0.2300	0.4110	-0.8200	0.2070	-0.2700	0.3930	-1.9100	0.0300	-1.6000	0.0580

Finance Director - Company Size vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.6600	0.2550	-1.3300	0.0940	-0.9700	0.1680	-1.1300	0.1320	-1.8400	0.0360
EBITDA	-0.2100	0.4160	0.3200	0.3770	-0.4100	0.3420	0.1400	0.4460	-3.5600	0.0010
Sales	-0.7800	0.2190	-0.3900	0.3500	-0.0400	0.4820	-0.6000	0.2770	-0.2100	0.0210
Net Inc	-0.4700	0.3210	0.2300	0.4090	0.2500	0.4020	-0.9100	0.1820	1.2700	0.1050
TSR	-0.0800	0.4670	-0.6000	0.2760	-0.0100	0.4970	-0.9200	0.1810	1.2200	0.1140
ROE	-0.2600	0.3960	-0.2500	0.4020	-0.5700	0.2850	-0.9200	0.1810	-0.8900	0.1910

All Directors - Company Size vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.9400	0.1750	0.4300	0.3320	-0.3700	0.3560	-1.0100	0.1590	-0.4500	0.3280
EBITDA	-0.8400	0.2010	-0.3300	0.3710	-0.2900	0.3850	-0.1200	0.4530	1.3100	0.0970
Sales	0.3700	0.3550	-1.1300	0.1300	-0.1200	0.4510	0.5000	0.3080	-0.0400	0.4840
Net Inc	-0.0700	0.4710	1.2800	0.1030	-0.0600	0.4780	-0.8000	0.2140	-0.6900	0.2460
TSR	-0.3800	0.3530	-1.2900	0.0990	-1.1400	0.1280	0.5400	0.2960	-0.4900	0.3120
ROE	-0.3200	0.3760	-1.1000	0.1370	-0.1400	0.4450	-2.2000	0.0150	0.4000	0.3460

All Directors - CEO - Company Size vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.3900	0.3470	-0.2000	0.4210	-0.5700	0.2860	-1.6100	0.0560	-0.1600	0.4360
EBITDA	-1.0500	0.1500	0.4600	0.3220	-0.1000	0.4620	-0.6500	0.2690	-1.5400	0.0650
Sales	-0.2900	0.3880	-0.9800	0.1650	-0.2800	0.3890	-0.0300	0.4880	-0.2700	0.3920
Net Inc	-0.5800	0.2810	1.1600	0.1260	0.1700	0.4310	-0.7500	0.2280	-0.6300	0.2660
TSR	-0.0900	0.4630	-0.0600	0.4740	-1.1500	0.1270	0.0800	0.4690	-0.0900	0.4650
ROE	-0.1800	0.4300	-0.3300	0.3690	-1.0400	0.1510	-1.3300	0.0940	0.3300	0.4690

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3f(i): The larger the board, the weaker the relationship between Total Cash and Company Performance

CEO - Board Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-2.7800	0.0030	-0.0800	0.4680	-1.0600	0.1470	0.3100	0.3770	1.2700	0.1050
EBITDA	0.6400	0.2620	-0.5700	0.2840	0.0200	0.4940	-1.7600	0.0410	-0.0300	0.4870
Sales	-0.9900	0.1630	-0.1200	0.4510	-0.4000	0.3440	-0.9700	0.1670	-0.5900	0.2800
Net Inc	-1.7900	0.0390	0.2000	0.4210	-0.7000	0.2440	-1.4800	0.0720	-0.5800	0.2830
TSR	-1.8900	0.0330	-0.1000	0.4610	-0.1400	0.4450	-0.9900	0.1630	-0.5200	0.3020
ROE	0.7900	0.2170	0.7500	0.2280	-0.1700	0.4340	-1.6400	0.0530	-0.4300	0.3350

Finance Director - Board Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.6000	0.2770	-0.9600	0.1700	-0.4600	0.3220	-0.2100	0.4170	0.0400	0.4830
EBITDA	0.3000	0.3820	-0.1100	0.4570	-2.0100	0.0260	-2.6700	0.0050	-0.0400	0.4830
Sales	-0.4800	0.3170	0.0800	0.4680	-0.2700	0.3920	-2.3400	0.0110	-0.2600	0.3960
Net Inc	-1.1500	0.1270	-0.0500	0.4800	-0.3900	0.3490	-1.6300	0.0540	-0.7100	0.2410
TSR	-1.0000	0.1620	0.3200	0.3760	-2.0400	0.0230	-0.7300	0.2340	-0.5600	0.2880
ROE	-0.8600	0.1970	-0.4200	0.3360	-0.3600	0.3600	1.2600	0.1070	-0.0800	0.4690

All Directors - Board Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-1.0100	0.1570	-0.7300	0.2330	-0.8400	0.2010	-0.8200	0.2070	-2.1500	0.0180
EBITDA	-0.8500	0.1980	-0.4600	0.3250	-1.9600	0.0340	-2.7100	0.0040	-1.9400	0.0290
Sales	-0.1900	0.4250	-0.5300	0.3000	-2.2500	0.0140	-2.5300	0.0070	-0.3600	0.3590
Net Inc	-1.6100	0.0560	-0.0800	0.4680	-1.9500	0.0270	-2.0300	0.0230	-1.3600	0.0880
TSR	-1.4700	0.0730	-0.3100	0.3790	0.9400	0.1750	-0.1900	0.4230	-0.3500	0.3650
ROE	0.0000	0.5000	0.2600	0.3980	-0.7800	0.2200	1.2900	0.1010	-0.7300	0.2350

All Directors - CEO - Board Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.2100	0.4180	-0.7900	0.2160	-1.0400	0.1500	-1.0500	0.1480	-2.5500	0.0060
EBITDA	-0.7000	0.2420	-0.0700	0.4730	-1.7700	0.0410	-1.8200	0.0370	-1.3400	0.0930
Sales	-0.2300	0.4100	-0.4800	0.3150	-2.5400	0.0070	-1.8500	0.0340	0.0000	0.5000
Net Inc	-0.9700	0.1670	0.3400	0.3670	-2.5700	0.0060	-1.1600	0.1250	-1.1200	0.1330
TSR	-1.2200	0.1130	-0.4200	0.3390	0.7600	0.2250	-1.1200	0.1330	-0.1800	0.4290
ROE	-0.4000	0.3460	0.1700	0.4340	-0.5300	0.3000	1.0400	0.1520	-0.1100	0.4550

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3f(ii): The larger the board, the weaker the relationship between Total Compensation and Company Performance

CEO - Board Size vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-1.2300	0.1110	1.1600	0.1250	0.4700	0.3210	0.4800	0.3160	-0.5100	0.3060
EBITDA	-0.6500	0.2580	-0.5200	0.3010	-0.5400	0.2950	-2.7700	0.0040	0.1400	0.4450
Sales	-0.7700	0.2220	-0.6200	0.2690	-1.1900	0.1200	-2.0100	0.0240	-1.0300	0.1530
Net Inc	-0.5800	0.2800	-0.7000	0.2450	-0.4700	0.3180	-2.0600	0.0210	-0.8100	0.2110
TSR	-0.4000	0.3440	-0.4400	0.3310	-0.1600	0.4380	0.6000	0.2760	-1.7800	0.0410
ROE	-0.9400	0.1760	-0.4400	0.3310	-0.0700	0.4720	-0.2400	0.4040	-0.7500	0.2290

Finance Director - Board Size vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.4000	0.3450	-0.6800	0.2490	-0.9400	0.1760	-0.8200	0.2070	0.7400	0.2300
EBITDA	0.4000	0.3450	-0.0300	0.4890	-1.6200	0.0580	-0.0900	0.4640	-0.0900	0.4640
Sales	-0.3000	0.3820	-0.3400	0.3680	-1.2000	0.1180	-0.8000	0.2130	-0.8500	0.2000
Net Inc	-0.1300	0.4480	0.0100	0.4940	-0.6100	0.2720	-0.6800	0.2510	-0.6700	0.2520
TSR	-0.8600	0.1970	-0.2000	0.4220	-0.2900	0.3860	-0.0100	0.4940	-0.7700	0.2230
ROE	1.0700	0.1440	-0.2200	0.4140	1.2100	0.1160	-1.0100	0.1590	-1.2800	0.1040

All Directors - Board Size vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.9300	0.1770	-0.2000	0.4210	-0.5600	0.2880	-0.0300	0.4880	-1.7900	0.0390
EBITDA	-0.4400	0.3300	-0.6500	0.2570	-0.1600	0.4350	-1.1600	0.1250	-0.8000	0.2130
Sales	-0.7700	0.2220	-1.1800	0.1200	-0.7600	0.2250	-0.9300	0.1770	-0.4000	0.3450
Net Inc	-0.1600	0.4370	-1.4000	0.0820	-0.5300	0.3000	-0.9000	0.1850	-1.1400	0.1280
TSR	0.2400	0.4070	-0.2700	0.3920	-0.1400	0.4450	-0.3400	0.3660	-0.4100	0.3400
ROE	-0.0700	0.4730	-0.9900	0.1640	0.5400	0.2940	0.7200	0.2360	-1.8200	0.0360

All Directors - CEO - Board Size vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.2200	0.4120	-0.5100	0.3040	-1.4400	0.0770	-0.9800	0.1650	-2.0100	0.0250
EBITDA	-0.1700	0.4320	-0.9100	0.1840	-0.8500	0.2000	-0.4700	0.3190	-0.5100	0.3050
Sales	-0.5200	0.3010	-0.8400	0.2010	-1.9000	0.0300	-1.3400	0.0920	-0.0200	0.4930
Net Inc	-0.2000	0.4190	1.5600	0.0620	-1.1300	0.1310	-0.9900	0.1620	-0.8700	0.1950
TSR	-0.7500	0.2290	-0.8500	0.2000	-0.6200	0.2680	-0.8200	0.2080	-0.0300	0.4870
ROE	-0.6400	0.2630	0.1400	0.4450	1.1800	0.1200	0.7300	0.2330	-1.7200	0.0450

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3g(i): The higher the proportion of non executive, the stronger the relationship between Total Cash and Company Performance

CEO - Non-executive/executive director ratio vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.0900	0.4630	1.0800	0.1420	-0.1200	0.4510	0.1400	0.4420	-0.3300	0.3700
EBITDA	0.4100	0.3410	-0.1400	0.4440	-0.4700	0.3180	-0.3900	0.3500	-1.4900	0.0730
Sales	0.2200	0.4130	-0.1600	0.4370	0.4200	0.3880	0.5600	0.2880	0.5000	0.3100
Net Inc	-0.2900	0.3860	-0.9900	0.1630	0.1200	0.4530	-0.7600	0.2230	-0.2400	0.4040
TSR	-0.8400	0.2030	0.1700	0.4330	0.4300	0.3350	0.4100	0.3410	-0.8600	0.1960
ROE	-0.4900	0.3120	-0.2300	0.4100	0.2900	0.3850	0.5700	0.2840	-0.6100	0.2730

Finance Director - Non-executive/executive director ratio vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.8500	0.0350	1.1700	0.1240	0.0700	0.4710	-0.0500	0.4810	-0.6700	0.2520
EBITDA	-0.3200	0.3760	0.4800	0.3160	0.8700	0.1940	-0.8400	0.2030	0.1000	0.4590
Sales	-0.5200	0.3010	1.9000	0.0310	0.2500	0.4030	-1.4500	0.0860	-0.1700	0.4320
Net Inc	0.0700	0.4730	-0.3900	0.3500	1.0900	0.1420	-0.0400	0.4860	0.3200	0.3750
TSR	-0.4700	0.3200	0.7100	0.2400	1.8600	0.0350	-1.6000	0.0580	0.1500	0.4400
ROE	-0.0300	0.4890	-0.5000	0.3090	-0.2600	0.3970	1.5700	0.0600	-0.1400	0.4460

All Directors - Non-executive/executive director ratio vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.9500	0.1730	0.4900	0.3130	-0.5500	0.2920	1.0200	0.1540	-0.0300	0.4890
EBITDA	-0.2400	0.4170	0.2500	0.4000	1.0100	0.1570	0.0500	0.4780	0.0700	0.4710
Sales	-0.2500	0.4020	0.6100	0.2730	-0.4000	0.3440	0.3900	0.3500	0.1200	0.4520
Net Inc	-0.7500	0.4770	-1.8800	0.0320	-0.0800	0.4690	-0.0800	0.4670	0.0900	0.4650
TSR	0.3700	0.3550	1.1800	0.1200	1.5700	0.0610	1.3000	0.0980	-0.6300	0.2640
ROE	-0.1200	0.4510	0.4300	0.3350	0.5200	0.3010	0.8500	0.2000	-0.3700	0.3550

All Directors - CEO - Non-executive/executive director ratio vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.4100	0.3410	0.0100	0.4990	-0.6900	0.2470	-0.6200	0.2700	0.0500	0.4790
EBITDA	-0.8400	0.2010	-0.1200	0.4510	1.2100	0.1150	-0.3900	0.3480	1.2800	0.1040
Sales	-0.4400	0.3290	-0.1000	0.4580	-0.2000	0.4220	1.3300	0.0940	-0.0100	0.4980
Net Inc	-0.7100	0.2410	0.2100	0.4160	0.9400	0.1750	-0.0300	0.4880	0.2600	0.3880
TSR	-0.1300	0.4500	1.3800	0.0850	0.2500	0.4040	-0.1100	0.4580	-1.7200	0.0450
ROE	0.5600	0.2890	-0.2400	0.4050	1.6000	0.0570	1.0200	0.1560	-0.3500	0.3630

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3g(ii): The higher the proportion of non executives, the stronger the relationship between Total Compensation and Company Performance

CEO - Non-executive/executive director ratio vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.2800	0.3910	1.1900	0.1180	-1.1700	0.1230	0.6100	0.2700	-0.7200	0.2380
EBITDA	0.5800	0.2840	-0.8400	0.2030	-1.2000	0.1180	-0.7400	0.2320	-0.1800	0.4290
Sales	-1.0500	0.1480	1.2400	0.1110	-0.5000	0.3180	-0.5300	0.2980	-1.7700	0.0410
Net Inc	-1.5700	0.0610	-0.5700	0.2850	-0.4600	0.3220	-0.6900	0.2460	-0.9900	0.1640
TSR	-0.6100	0.2710	0.7300	0.2350	-1.4100	0.0820	1.8300	0.0350	-1.2200	0.1130
ROE	-0.5400	0.2940	0.3400	0.3690	1.3100	0.0970	1.5100	0.0670	0.5400	0.2960

Finance Director - Non-executive/executive director ratio vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.5700	0.2860	0.1000	0.4610	-0.7600	0.2260	-0.2100	0.4160	0.0300	0.4900
EBITDA	-0.6100	0.2710	-0.0400	0.4860	0.2000	0.4710	0.8500	0.2000	-0.8600	0.1980
Sales	-0.8700	0.1930	0.7100	0.2410	0.0300	0.4880	1.3300	0.0940	-0.1100	0.4570
Net Inc	-0.2200	0.4120	-0.5800	0.2820	0.7300	0.2850	-0.1300	0.4480	0.1800	0.4300
TSR	0.3800	0.3540	-0.1100	0.4560	-0.3200	0.3730	-0.1400	0.4450	-2.0400	0.0240
ROE	0.5800	0.2800	-0.5200	0.3020	-0.8200	0.2090	0.5100	0.3020	0.0600	0.4740

All Directors - Non-executive/executive director ratio vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.4100	0.3420	-0.1900	0.4230	-0.6800	0.2480	-0.2000	0.4230	-0.1200	0.4500
EBITDA	-0.2000	0.4210	-0.4800	0.3170	1.7900	0.0400	-1.4100	0.0810	0.8700	0.1950
Sales	-0.9800	0.1640	0.2100	0.4180	-0.7400	0.2290	1.7900	0.0380	-0.0900	0.4630
Net Inc	-2.1300	0.0180	-0.3100	0.3800	0.9000	0.1960	0.3300	0.3710	-0.2400	0.4060
TSR	-0.7500	0.2280	0.6500	0.2590	1.0300	0.1520	1.0700	0.1440	-1.7800	0.0400
ROE	0.6900	0.2460	0.0300	0.4890	2.3000	0.0120	1.2800	0.1030	-0.1200	0.4510

All Directors - CEO - Non-executive/executive director ratio vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.2500	0.1080	0.8200	0.2060	-0.4800	0.3710	1.4000	0.0820	0.2100	0.4150
EBITDA	-0.4100	0.3410	-0.7100	0.2400	0.8700	0.1950	1.0000	0.1610	0.6900	0.2450
Sales	-0.5100	0.3040	0.5500	0.2930	-0.6200	0.2690	0.8900	0.1890	0.4200	0.3380
Net Inc	-0.1800	0.4300	-1.2300	0.1110	-0.4100	0.3410	0.7000	0.2420	0.8000	0.2140
TSR	0.3800	0.3530	0.8800	0.1900	1.1400	0.1300	0.9900	0.1630	-0.2400	0.4040
ROE	-0.3200	0.3750	0.5600	0.2900	0.8100	0.2100	1.0100	0.1590	-1.4200	0.0810

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3h(i): The larger the size of the Remuneration Committee, the stronger the relationship between Total Cash and Company Performance

CEO - Remuneration Committee Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.8500	0.2000	-0.8700	0.1940	-2.5600	0.0060	1.4300	0.0790	-0.2000	0.4220
EBITDA	-1.1800	0.1200	0.6300	0.2650	-0.7400	0.2310	0.8000	0.2140	0.9700	0.1690
Sales	0.2600	0.3960	0.9800	0.1650	-0.9700	0.1670	-0.5700	0.2860	0.3100	0.3780
Net Inc	-1.3700	0.0880	0.4000	0.3450	-1.5900	0.0580	0.4300	0.3330	0.4300	0.3350
TSR	-0.9100	0.1830	-0.4900	0.3140	0.6100	0.2700	0.9000	0.1860	-0.3000	0.3830
ROE	-1.1500	0.1280	0.7200	0.2370	-0.0600	0.4740	0.2100	0.4180	-0.0500	0.4810

Finance Director - Remuneration Committee Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-1.5100	0.0690	-1.1200	0.1340	0.7500	0.2290	1.1200	0.1330	-0.3300	0.3700
EBITDA	1.5300	0.0670	0.8600	0.1980	2.0100	0.0260	0.6600	0.2570	0.3900	0.3480
Sales	-0.7800	0.2200	1.3900	0.0840	-1.6100	0.0580	1.2600	0.1060	-1.4400	0.0790
Net Inc	-0.1000	0.4610	-0.7300	0.2340	-1.1600	0.1270	1.1200	0.1330	-1.3100	0.0990
TSR	-2.6400	0.0050	-0.7900	0.2170	0.8200	0.2080	1.9000	0.0310	-0.3200	0.3740
ROE	-2.4400	0.0090	0.2200	0.4130	0.4500	0.3260	-0.3800	0.3540	1.2400	0.1120

All Directors - Remuneration Committee Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.4400	0.3310	-2.4400	0.0080	-1.7600	0.0410	0.9300	0.1780	-1.2500	0.4000
EBITDA	-0.8100	0.2090	0.0300	0.4870	-0.3500	0.3640	-0.1400	0.4440	-2.3200	0.0120
Sales	0.4500	0.3270	0.4700	0.3190	-1.3700	0.0870	1.0300	0.1520	-2.2700	0.0130
Net Inc	0.1800	0.4300	0.7200	0.2360	-1.7900	0.0380	1.7100	0.0460	-2.4800	0.0080
TSR	-0.9100	0.1830	-2.4900	0.0070	0.5100	0.3050	0.9500	0.1720	0.1800	0.4280
ROE	-1.2000	0.1170	0.5100	0.3060	-0.2300	0.4080	0.2500	0.4020	-0.0700	0.4730

All Directors - CEO - Remuneration Committee Size vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-1.1900	0.1180	-1.3600	0.0900	-1.6100	0.0560	0.4600	0.3230	-0.8100	0.2090
EBITDA	-0.6900	0.2460	0.0700	0.4710	-0.0100	0.4970	-0.2800	0.3910	-2.6700	0.0490
Sales	-0.0400	0.4830	0.0500	0.4810	-1.1400	0.1280	0.6600	0.2550	-1.9100	0.0300
Net Inc	0.2100	0.4160	0.5900	0.2800	-1.4900	0.0700	1.4700	0.0730	-2.4600	0.0080
TSR	-2.0000	0.0250	-1.8500	0.0350	0.6100	0.2720	0.9000	0.1850	-0.3800	0.3530
ROE	-1.5300	0.0650	0.6000	0.2750	0.1500	0.4390	0.3200	0.3730	-0.1900	0.4240

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3h(ii): The larger the size of the Remuneration Committee, the stronger the relationship between Total Compensation and Company Performance

CEO - Remuneration Committee Size vs (relationship between Total Compensation and Performance)

Year	2008/09		2007/08		2006/07		2005/06		2004/05	
	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
Performance										
EPS	1.0500	0.1480	-0.2700	0.3940	-0.1300	0.4460	-0.3400	0.3650	-1.9400	0.0300
EBITDA	-0.4300	0.3340	1.4900	0.0720	-0.4100	0.3400	-0.7800	0.2200	0.3900	0.3500
Sales	0.3400	0.3670	-0.4800	0.3170	0.0600	0.4760	-1.1100	0.1350	-1.1700	0.1250
Net Inc	-0.1600	0.4380	2.6200	0.0050	-0.2700	0.3950	-0.5400	0.2950	-0.0100	0.4940
TSR	-0.0500	0.4810	-0.5400	0.2940	0.7000	0.2420	0.6200	0.2690	-0.2600	0.4000
ROE	-0.3400	0.3670	0.1400	0.4440	-1.2500	0.1080	0.2900	0.3870	-0.2900	0.3870

Finance Director - Remuneration Committee Size vs (relationship between Total Compensation and Performance)

Year	2008/09		2007/08		2006/07		2005/06		2004/05	
	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
Performance										
EPS	0.2200	0.4120	-0.0400	0.4820	1.1900	0.1200	-2.0300	0.0230	-1.3300	0.0950
EBITDA	-0.3700	0.3580	2.3000	0.0130	0.0400	0.4850	0.5000	0.3100	0.4000	0.3440
Sales	-0.1000	0.4620	1.1300	0.1310	-0.1000	0.4590	-1.4000	0.0840	-0.4300	0.3340
Net Inc	0.1300	0.4470	2.6500	0.0050	-0.6700	0.2520	-0.5300	0.3010	1.0000	0.1610
TSR	-0.5400	0.2970	-0.7300	0.2330	-0.7600	0.2250	0.1400	0.4450	0.0100	0.4910
ROE	0.8000	0.2130	-0.1800	0.4290	1.4200	0.0820	0.5500	0.2930	-0.6400	0.2630

All Directors - Remuneration Committee Size vs (relationship between Total Compensation and Performance)

Year	2008/09		2007/08		2006/07		2005/06		2004/05	
	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
Performance										
EPS	-0.4100	0.3430	-1.1600	0.1250	-0.5500	0.2930	-0.1200	0.4540	-1.1600	0.1250
EBITDA	-1.1300	0.1310	1.4200	0.0810	1.1300	0.1310	-0.1000	0.4610	-2.0300	0.0240
Sales	-0.3300	0.3690	0.2400	0.4030	-0.7300	0.2320	-0.3500	0.3640	-1.4300	0.0780
Net Inc	-1.2600	0.1060	3.0100	0.0020	-0.6400	0.2610	0.2100	0.4160	-1.2000	0.1170
TSR	-0.8500	0.1970	-1.6600	0.0490	1.2700	0.1040	0.5800	0.2830	-0.4800	0.3160
ROE	-1.1800	0.1210	0.0700	0.4710	-2.1200	0.0180	0.5900	0.2780	-0.2800	0.3890

All Directors - CEO - Remuneration Committee Size vs (relationship between Total Compensation and Performance)

Year	2008/09		2007/08		2006/07		2005/06		2004/05	
	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
Performance										
EPS	0.2900	0.3850	-0.4700	0.3210	-0.7800	0.2180	-0.3000	0.3820	-1.4800	0.0720
EBITDA	-0.8000	0.2130	1.8000	0.0390	1.1400	0.1310	0.5600	0.2870	-2.4100	0.0090
Sales	0.3900	0.3490	0.3000	0.3830	-1.5200	0.0660	-0.0700	0.4740	-1.0200	0.1550
Net Inc	0.3700	0.3570	3.0600	0.0010	-0.9900	0.1620	0.3400	0.3670	-1.0600	0.1460
TSR	-1.7400	0.0430	-0.0400	0.4860	2.6200	0.0050	0.9100	0.1830	-0.7600	0.2250
ROE	-1.5300	0.0650	0.6100	0.2700	-1.5200	0.0670	0.7700	0.2230	-0.4000	0.3460

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3i(i): The longer the tenure, the stronger the relationship between Total Cash and Company Performance

CEO - Tenure vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.5100	0.3050	-0.6200	0.2680	-0.9400	0.1760	-1.3800	0.0860	0.1100	0.4550
EBITDA	0.5800	0.2820	-0.0400	0.4850	-0.2100	0.4170	-1.1300	0.1320	-1.4100	0.0840
Sales	-0.5500	0.2920	1.1300	0.1310	0.1300	0.4500	-0.3900	0.3500	-0.9900	0.1630
Net Inc	-0.3200	0.3740	-0.6700	0.2510	-0.0100	0.4990	-1.0700	0.1450	-0.2600	0.3970
TSR	-0.4800	0.3170	-0.0400	0.4840	-0.3200	0.3740	-0.1400	0.4450	-0.3000	0.3830
ROE	-1.7100	0.0460	-0.1500	0.4400	-1.7300	0.0440	-0.4700	0.3190	-1.2000	0.1190

Finance Director - Tenure vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.8400	0.2010	-0.1600	0.4360	0.7900	0.2170	0.2400	0.4070	-0.2300	0.4100
EBITDA	0.2400	0.4050	-0.3200	0.3760	-1.6500	0.0540	-0.0900	0.4630	0.1800	0.4290
Sales	0.8600	0.1970	-0.7300	0.2350	-0.0600	0.4760	-0.8400	0.2010	-0.3100	0.3790
Net Inc	-3.0300	0.0020	0.3300	0.3710	-0.7500	0.2280	-0.4800	0.3180	-0.7300	0.2350
TSR	-1.7400	0.0440	-0.4600	0.3280	-1.4500	0.0770	-1.2900	0.1010	-0.2600	0.3970
ROE	-1.3100	0.0970	-0.1100	0.4540	-0.1400	0.4450	-2.3100	0.0130	-1.7700	0.0420

H3i(ii): The longer the tenure, the stronger the relationship between Total Compensation and Company Performance

CEO - Tenure vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.6700	0.2530	-1.7600	0.0420	-0.5700	0.2850	-0.1400	0.4450	-0.1600	0.4370
EBITDA	0.3800	0.3540	-0.5100	0.3050	0.5900	0.2780	-1.4500	0.0760	1.2500	0.1040
Sales	0.2000	0.4210	0.1700	0.4310	0.6900	0.2460	0.7200	0.2370	1.8900	0.0320
Net Inc	0.8100	0.2110	-0.4100	0.3410	1.1100	0.1360	-1.6700	0.0490	-2.5200	0.0070
TSR	0.1600	0.4360	-0.2800	0.3900	0.9100	0.1820	-0.4500	0.3260	-2.1800	0.0170
ROE	-0.6800	0.2510	0.4100	0.3410	0.7500	0.2770	-0.5000	0.3090	0.2500	0.4020

Finance Director - Tenure vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.0500	0.1500	-0.4800	0.3170	0.6600	0.2560	-0.7800	0.2190	1.8700	0.0350
EBITDA	-0.1200	0.4510	-0.7000	0.2450	0.1600	0.4370	-0.4800	0.3180	-0.0700	0.2450
Sales	-1.8300	0.0360	0.1200	0.4540	-0.1000	0.4590	0.5000	0.3090	1.5300	0.0670
Net Inc	-2.8700	0.0030	0.1800	0.4280	-0.2900	0.3880	-1.3900	0.0860	0.6400	0.2620
TSR	-0.0200	0.4920	0.8700	0.1940	0.4800	0.3170	-1.1000	0.1380	-1.3600	0.0890
ROE	-1.3500	0.0920	0.1700	0.4320	-0.3900	0.3480	-1.9400	0.0290	0.5200	0.3010

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3j(i): The greater the number of LTI plans, the weaker the relationship between Total Cash and Company Performance

CEO - No. of LTI Plans vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.5800	0.2830	1.1400	0.1300	-1.1200	0.1340	0.2100	0.4160	-0.6000	0.2770
EBITDA	-0.9000	0.1760	0.7300	0.2340	-0.7000	0.2440	1.1500	0.1270	-0.2300	0.4110
Sales	0.0000	0.5000	0.1600	0.4370	-0.4400	0.3300	-2.6000	0.0050	-0.0600	0.4760
Net Inc	-0.2400	0.4070	0.5200	0.3030	-1.0100	0.1570	-1.8700	0.0330	0.4000	0.3440
TSR	-1.4700	0.0720	0.4500	0.3280	0.6200	0.2700	-0.8300	0.2050	-0.6200	0.2690
ROE	1.1600	0.1250	0.3200	0.3740	-1.9000	0.0320	2.3900	0.0090	-0.5300	0.3000

Finance Director - No. of LTI Plans vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.2800	0.3880	-0.2000	0.4200	-0.8200	0.2080	-0.7300	0.2350	-0.9500	0.1740
EBITDA	-0.3000	0.3840	-0.8000	0.2130	-0.5200	0.3040	1.0300	0.1650	-0.2700	0.3940
Sales	0.4800	0.3170	-1.4700	0.0740	0.0200	0.4930	-0.8200	0.4070	0.5800	0.2840
Net Inc	0.1900	0.4250	0.6100	0.2710	-1.0000	0.1610	-0.6700	0.2540	-0.5600	0.2900
TSR	-1.8000	0.0390	-0.8000	0.2130	-0.8300	0.2040	-1.0500	0.1500	-1.5700	0.0610
ROE	-1.8700	0.0340	-0.0900	0.4630	-1.5300	0.0660	1.4000	0.0830	-1.1000	0.1390

All Directors - No. of LTI Plans vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.8800	0.1910	-0.3300	0.3720	-1.2800	0.1020	-0.5700	0.2870	-2.3000	0.0120
EBITDA	-0.6300	0.2660	-1.4000	0.0830	-0.3000	0.3840	0.7100	0.2400	-1.0400	0.1510
Sales	-0.1800	0.4270	-0.3600	0.3580	-0.9400	0.1760	-0.1500	0.4390	-1.7000	0.0470
Net Inc	0.0800	0.4670	1.1600	0.1260	-1.3400	0.0920	-0.0900	0.4640	-2.1400	0.0180
TSR	-1.9400	0.0260	-1.3400	0.0920	0.6500	0.2580	-1.9500	0.0270	0.3000	0.2740
ROE	-1.3500	0.0900	-0.5600	0.2880	-2.3900	0.0090	1.9300	0.0280	-0.7500	0.2280

All Directors - CEO - No. of LTI Plans vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.0700	0.4720	0.6500	0.2590	-0.8700	0.1920	0.2800	0.3880	-2.1700	0.0170
EBITDA	-0.0700	0.4730	0.9700	0.1680	0.1500	0.4420	1.6900	0.0480	-1.6100	0.0560
Sales	-0.1000	0.4600	-0.8900	0.1870	-1.0500	0.1500	0.7600	0.2260	-1.6500	0.0510
Net Inc	0.2100	0.4190	0.6500	0.2590	-1.2400	0.1100	0.8900	0.1890	-2.2200	0.0160
TSR	-1.8400	0.0350	-0.2000	0.4220	0.1700	0.4310	-0.1600	0.4360	0.7900	0.2170
ROE	-0.9200	0.1810	-0.9500	0.1720	-2.1000	0.0200	2.1600	0.0170	0.2600	0.3990

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3j(ii): The greater the number of LTI plans, the weaker the relationship between Total Compensation and Company Performance

CEO - No. of LTI Plans vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.6100	0.5500	0.8800	0.1910	-1.0400	0.1520	-0.5600	0.2900	0.5300	0.2980
EBITDA	0.7400	0.2310	1.8200	0.0380	-0.4700	0.3190	0.2100	0.4170	0.2100	0.4160
Sales	2.1300	0.0180	-0.1300	0.4500	-1.1800	0.1210	0.5400	0.2950	0.0100	0.4960
Net Inc	1.4400	0.0770	1.2200	0.1130	-0.5800	0.2810	0.0800	0.4700	1.1600	0.1260
TSR	-0.9600	0.1690	0.2800	0.3910	-0.6500	0.2600	0.4500	0.3260	-0.4000	0.3470
ROE	1.5200	0.0660	0.1000	0.4600	-0.8300	0.2050	-1.1100	0.1350	0.1900	0.4230

Finance Director - No. of LTI Plans vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	-0.4500	0.3270	-1.2900	0.1020	-1.3600	0.0910	0.5700	0.2840	0.1100	0.4550
EBITDA	-0.0900	0.4630	-0.7200	0.2370	0.6600	0.2550	1.3200	0.0970	-1.2200	0.1150
Sales	0.8300	0.2060	-1.1500	0.1270	0.0100	0.4970	-1.3100	0.0970	0.7000	0.2450
Net Inc	-0.1300	0.4470	-0.2500	0.4010	-0.4600	0.3220	0.4300	0.3340	0.8700	0.1940
TSR	-1.2500	0.1080	-0.5900	0.2790	-0.2500	0.4020	-1.2800	0.1040	-0.7000	0.2440
ROE	-0.6300	0.2660	-0.4500	0.3260	0.1400	0.4460	1.3100	0.0970	-1.3600	0.0900

All Directors - No. of LTI Plans vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	2.0400	0.0220	0.2100	0.4170	-1.8200	0.0360	1.8200	0.0360	-2.3300	0.0120
EBITDA	1.2300	0.1120	-0.0700	0.4710	0.9300	0.1780	2.3400	0.0120	-1.8300	0.0360
Sales	2.6500	0.0050	-0.5300	0.3000	-0.9200	0.1800	0.1700	0.4320	-1.8100	0.0370
Net Inc	1.8000	0.0380	0.6900	0.2460	0.0100	0.4960	0.5200	0.3030	-1.5300	0.0650
TSR	-1.6000	0.0570	-0.9200	0.1790	0.6600	0.2560	1.5400	0.0630	-0.1800	0.4290
ROE	0.4800	0.3140	-0.4800	0.3150	0.5100	0.3060	2.1500	0.0170	2.2700	0.0130

All Directors - CEO - No. of LTI Plans vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.0600	0.4770	-0.8700	0.1930	-1.7600	0.0410	2.9400	0.0020	-2.2500	0.0140
EBITDA	-0.0800	0.4670	1.4400	0.0780	0.6200	0.2690	3.2600	0.0010	-1.9300	0.0300
Sales	0.2600	0.3960	-0.6500	0.2600	-0.2100	0.4160	0.2400	0.4060	-1.5700	0.0610
Net Inc	-0.2400	0.4060	0.4800	0.3170	-0.7300	0.2320	0.9100	0.1830	-1.4800	0.0720
TSR	-1.7300	0.0440	0.4200	0.3380	-0.1200	0.4510	0.9200	0.1790	0.0000	0.5000
ROE	-0.6300	0.2650	-0.7000	0.2440	0.9000	0.1860	2.6200	0.0060	2.4000	0.0100

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3k(i): The higher the maximum award level of Annual Bonus, the stronger the relationship between Total Cash and Company Performance

CEO - Maximum bonus potential vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.5500	0.2930	0.4900	0.3140	0.4400	0.3310	-0.6500	0.2580	0.6200	0.2700
EBITDA	-1.2000	0.1100	1.4600	0.0760	0.0800	0.4670	-0.1800	0.4270	3.1900	0.0010
Sales	0.7400	0.2310	0.7600	0.2260	1.0500	0.1490	0.1600	0.4370	1.9800	0.0270
Net Inc	0.5500	0.2930	0.8900	0.1890	0.0000	0.5000	-0.7000	0.2430	1.7900	0.0400
TSR	0.2100	0.4180	0.3300	0.3700	0.4300	0.3360	0.5500	0.2930	2.6300	0.0060
ROE	0.3000	0.3820	0.0800	0.4670	1.9300	0.0300	1.4800	0.0720	2.5500	0.0070

Finance Director - Maximum bonus potential vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.0100	0.4950	0.5800	0.2810	1.2400	0.1110	2.0900	0.0210	0.7100	0.2410
EBITDA	2.6900	0.0050	0.0700	0.4710	1.8300	0.0380	-0.8700	0.1940	0.5200	0.3030
Sales	0.5900	0.2780	1.2700	0.1050	0.8300	0.2040	1.0500	0.1500	0.7100	0.2410
Net Inc	1.1900	0.1200	0.5500	0.2910	1.9000	0.0330	-0.7000	0.2440	0.1800	0.4300
TSR	0.8400	0.2000	0.2300	0.4110	2.1100	0.0200	2.4600	0.0090	0.5800	0.2810
ROE	0.5000	0.3110	1.5600	0.0620	0.2400	0.4050	1.7900	0.0400	-0.1000	0.4600

All Directors - CEO - Maximum bonus potential vs (relationship between Total Cash and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	1.9900	0.0250	0.6400	0.2620	0.7700	0.2220	0.9400	0.1740	0.3300	0.3720
EBITDA	0.5600	0.2660	1.9800	0.0260	0.7400	0.2310	0.4200	0.2380	1.1200	0.1330
Sales	1.8700	0.0330	1.5100	0.0680	0.5300	0.3000	0.0900	0.4630	0.4000	0.3430
Net Inc	0.0600	0.4750	1.5200	0.0670	0.7400	0.2310	-0.1900	0.4260	1.1300	0.1310
TSR	1.8700	0.0330	0.8500	0.1990	0.0700	0.4710	0.4800	0.3160	0.5100	0.3070
ROE	2.0800	0.0200	1.1600	0.1250	0.6600	0.2550	0.7000	0.2430	0.0900	0.4640

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3k(ii): The higher the maximum award level of Annual Bonus, the stronger the relationship between Total Compensation and Company Performance

CEO - Maximum bonus potential vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.3800	0.3510	1.4100	0.0830	1.8800	0.0320	1.8200	0.0370	-0.5900	0.2790
EBITDA	0.4200	0.3390	2.0900	0.0210	1.2800	0.1030	-0.0400	0.4850	-0.8700	0.1950
Sales	0.9700	0.1670	0.3400	0.3690	1.4500	0.0760	0.3900	0.3500	0.0000	0.5000
Net Inc	0.6200	0.2690	1.4500	0.0760	-0.3700	0.3560	0.1100	0.4540	-0.1700	0.4320
TSR	0.5800	0.2810	0.2300	0.4080	1.1400	0.1300	0.6900	0.2450	1.1400	0.1310
ROE	0.9400	0.1740	-0.8300	0.2060	0.7000	0.2430	-0.1700	0.4320	0.6400	0.2630

Finance Director - Maximum bonus potential vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.4200	0.3380	-0.7200	0.2360	0.2300	0.4110	1.9200	0.0300	-0.3000	0.3810
EBITDA	1.4400	0.0790	0.7600	0.2260	-0.3700	0.3580	1.5400	0.0660	2.0400	0.0250
Sales	1.3800	0.0870	2.4100	0.0100	1.7700	0.0420	1.3000	0.0980	0.2100	0.4160
Net Inc	-0.2900	0.3880	0.4000	0.3460	1.9900	0.0270	-0.5400	0.2950	0.2300	0.4110
TSR	0.0300	0.4860	1.6300	0.0540	0.8500	0.2000	1.9200	0.0300	-0.0200	0.4900
ROE	1.2500	0.1090	1.6000	0.0580	-1.1200	0.1360	1.5600	0.0620	-0.4300	0.3330

All Directors - CEO - Maximum bonus potential vs (relationship between Total Compensation and Performance)										
Year	2008/09		2007/08		2006/07		2005/06		2004/05	
Performance	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value	test stat	p-value
EPS	0.6700	0.2520	0.1100	0.4560	-0.7100	0.2390	1.0700	0.1440	0.2700	0.3930
EBITDA	1.9800	0.0260	2.2200	0.0150	0.3700	0.3560	1.9300	0.0300	-0.0300	0.4870
Sales	2.0100	0.0240	1.9200	0.0290	0.7800	0.2180	0.5700	0.2860	0.2100	0.4190
Net Inc	0.2500	0.4010	1.5800	0.0600	0.5400	0.2960	0.1000	0.4590	0.1100	0.4550
TSR	0.6100	0.2720	0.0800	0.4670	1.3200	0.0960	1.2500	0.1080	0.2800	0.3900
ROE	1.6100	0.0560	1.7100	0.0460	-0.3300	0.3700	1.5100	0.0670	0.7200	0.2380

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H31(i): CEO Total Cash is more strongly linked to Company Performance than that of executive directors

Note: The reported number is the correlation between two variables (or the correlation coefficient). The general notation is "r" and measures the strength of the linear relationship between the variables:

- The closer "r" is to +1, the stronger the positive linear relationship (i.e., when one goes up, the other goes up as well).
- One the other hand, the closer "r" is to -1, the stronger the negative linear relationship (i.e., when one goes up, the other goes down).
- There is no linear relationship between two variables where "r" is 0.

Total Cash vs Company Performance				
Year	2004/05			
Performance	CEO	FD	All Dir	All - CEO
EPS	0.120	0.096	-0.010	-0.017
EBITDA	0.036	-0.186	0.142	0.064
Sales	0.116	0.232	0.283	0.293
Net Inc	0.068	0.064	0.133	0.196
TSR	0.343	0.199	0.184	0.092
ROE	0.005	-0.052	0.059	0.044

Total Cash vs Company Performance				
Year	2004/05			
Performance	CEO	FD	All Dir	All - CEO
EPS	1	2	3	4
EBITDA	3	4	1	2
Sales	4	3	2	1
Net Inc	3	4	2	1
TSR	1	2	3	4
ROE	3	4	1	2

#1 positive significant
#1 positive insignificant
#1 negative
Not #1 positive significant

Total Cash vs Company Performance				
Year	2005/06			
Performance	CEO	FD	All Dir	All - CEO
EPS	-0.015	0.058	0.051	0.082
EBITDA	-0.046	0.017	0.122	0.165
Sales	-0.165	0.186	0.126	0.158
Net Inc	0.013	0.249	0.230	0.233
TSR	0.029	0.221	0.047	0.193
ROE	0.059	0.191	-0.055	-0.047

Total Cash vs Company Performance				
Year	2005/06			
Performance	CEO	FD	All Dir	All - CEO
EPS	4	2	3	1
EBITDA	4	3	2	1
Sales	4	1	3	2
Net Inc	4	1	3	2
TSR	4	1	3	2
ROE	2	1	4	3

Total Cash vs Company Performance				
Year	2006/07			
Performance	CEO	FD	All Dir	All - CEO
EPS	0.104	-0.002	0.092	0.109
EBITDA	0.036	-0.020	-0.127	-0.187
Sales	0.027	0.089	0.051	0.125
Net Inc	0.074	0.055	0.062	0.079
TSR	0.123	0.214	0.327	0.272
ROE	-0.036	-0.033	-0.177	-0.134

Total Cash vs Company Performance				
Year	2006/07			
Performance	CEO	FD	All Dir	All - CEO
EPS	2	4	3	1
EBITDA	1	2	3	4
Sales	4	2	3	1
Net Inc	2	4	3	1
TSR	4	3	1	2
ROE	2	1	4	3

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

Total Cash vs Company Performance				
Year	2007/08			
Performance	CEO	FD	All Dir	All - CEO
EPS	-0.018	-0.150	-0.080	-0.038
EBITDA	0.047	0.250	0.085	0.056
Sales	0.074	0.152	0.168	0.192
Net Inc	-0.008	0.010	-0.011	0.014
TSR	0.146	0.193	0.221	0.243
ROE	-0.033	-0.007	0.042	0.045

Total Cash vs Company Performance				
Year	2007/08			
	CEO	FD	All Dir	All - CEO
EPS	1	4	3	2
EBITDA	4	1	2	3
Sales	4	3	2	1
Net Inc	3	2	4	1
TSR	4	3	2	1
ROE	4	3	2	1

Total Cash vs Company Performance				
Year	2008/09			
Performance	CEO	FD	All Dir	All - CEO
EPS	0.106	0.244	0.146	0.177
EBITDA	-0.134	-0.217	-0.132	-0.124
Sales	0.229	0.243	0.111	0.183
Net Inc	0.204	0.164	0.113	0.197
TSR	0.247	0.318	0.251	0.315
ROE	0.171	0.361	0.117	0.257

Total Cash vs Company Performance				
Year	2008/09			
	CEO	FD	All Dir	All - CEO
EPS	4	1	3	2
EBITDA	3	4	2	1
Sales	2	1	4	3
Net Inc	1	3	4	2
TSR	4	1	3	2
ROE	3	1	4	2

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

H3(ii): CEO Total Compensation is more strongly linked to Company Performance than that of executive directors

Note: The reported number is the correlation between two variables (or the correlation coefficient). The general notation is "r" and measures the strength of the linear relationship between the variables:

- The closer "r" is to +1, the stronger the positive linear relationship (i.e., when one goes up, the other goes up as well).
- One the other hand, the closer "r" is to -1, the stronger the negative linear relationship (i.e., when one goes up, the other goes down).
- There is no linear relationship between two variables where "r" is 0.

Total Compensation vs Company Performance				
Year	2004/05			
Performance	CEO	FD	All Dir	All - CEO
EPS	0.001	0.005	-0.047	-0.070
EBITDA	0.246	0.088	0.202	0.194
Sales	0.105	0.211	0.217	0.246
Net Inc	0.004	0.085	0.183	0.254
TSR	0.418	0.213	0.192	0.119
ROE	0.152	0.140	0.167	0.153

Total Compensation vs Company Performance				
Year	2004/05			
	CEO	FD	All Dir	All - CEO
EPS	2	1	3	4
EBITDA	1	4	2	3
Sales	4	3	2	1
Net Inc	4	3	2	1
TSR	1	2	3	4
ROE	3	4	1	2

	#1 positive significant
	#1 positive insignificant
	#1 negative
	Not #1 positive significant

Total Compensation vs Company Performance				
Year	2005/06			
Performance	CEO	FD	All Dir	All - CEO
EPS	0.067	0.224	0.126	0.177
EBITDA	0.131	0.129	0.216	0.269
Sales	0.015	0.069	0.170	0.136
Net Inc	0.056	0.188	0.196	0.192
TSR	0.234	0.223	0.237	0.184
ROE	0.030	-0.068	-0.011	0.008

Total Compensation vs Company Performance				
Year	2005/06			
	CEO	FD	All Dir	All - CEO
EPS	4	1	3	2
EBITDA	3	4	2	1
Sales	4	3	1	2
Net Inc	4	3	1	2
TSR	2	3	1	4
ROE	1	4	3	2

Total Compensation vs Company Performance				
Year	2006/07			
Performance	CEO	FD	All Dir	All - CEO
EPS	0.054	0.076	0.111	0.147
EBITDA	0.080	-0.221	-0.126	-0.329
Sales	-0.103	0.139	-0.028	0.099
Net Inc	0.173	0.032	0.174	0.044
TSR	-0.028	0.060	0.105	0.003
ROE	-0.032	-0.219	-0.089	-0.167

Total Compensation vs Company Performance				
Year	2006/07			
	CEO	FD	All Dir	All - CEO
EPS	4	3	2	1
EBITDA	2	4	3	1
Sales	4	1	3	2
Net Inc	2	4	1	3
TSR	4	2	1	3
ROE	1	4	2	3

Part 3 - Factors affecting the relationship between Pay (Total Cash and Total Compensation) and Company Performance

Total Compensation vs Company Performance				
Year	2007/08			
Performance	CEO	FD	All Dir	All - CEO
EPS	0.006	-0.205	-0.078	-0.068
EBITDA	-0.018	0.042	-0.021	-0.143
Sales	0.046	0.159	0.188	0.149
Net Inc	0.056	0.078	0.066	0.081
TSR	0.229	0.294	0.325	0.338
ROE	0.020	0.017	0.138	0.070

Total Compensation vs Company Performance				
Year	2007/08			
Performance	CEO	FD	All Dir	All - CEO
EPS	1	4	3	2
EBITDA	2	1	3	4
Sales	4	2	1	3
Net Inc	4	2	3	1
TSR	4	3	2	1
ROE	3	4	1	2

Total Compensation vs Company Performance				
Year	2008/09			
Performance	CEO	FD	All Dir	All - CEO
EPS	0.034	-0.162	-0.087	-0.052
EBITDA	-0.085	-0.074	-0.105	-0.055
Sales	0.032	0.020	-0.059	0.013
Net Inc	-0.093	0.031	-0.079	0.057
TSR	-0.164	0.007	-0.039	0.065
ROE	0.223	0.122	0.160	0.127

Total Compensation vs Company Performance				
Year	2008/09			
Performance	CEO	FD	All Dir	All - CEO
EPS	1	4	3	2
EBITDA	3	2	4	1
Sales	1	2	4	3
Net Inc	4	2	3	1
TSR	4	2	3	1
ROE	1	4	2	3

H3m: Pay-Performance relationships by Industry

2008-09 CEO Tcash	EPS Growth				EBITDA			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.8344	4	0.1656	Chemicals & pharmaceuticals	0.908963	4	0.091037
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture		1	2 NA	Engineering & other manufacture		1	2 NA
	Finance	0.3056	15	0.267996	Finance	0.758243	4	0.241757
	Food/drink & tobacco	0.337551	7	0.459036	Food/drink & tobacco	0.17128	7	0.713472
	Media/marketing & telecoms	0.251783	5	0.682839	Media/marketing & telecoms	0.796175	4	0.203825
	Media/marketing & telecoms	0.084594	13	0.783495	Oil/gas & minerals	-0.194256	13	0.524822
	Other services	0.992093	5	0.000843	Other services	-0.201803	5	0.744811
	Property	-0.384266	3	0.748909	Property	-0.998913	3	0.029682
	Retail & distribution	0.835246	5	0.078262	Retail & distribution	-0.899574	5	0.037623
	Transport & leisure	-0.492394	3	0.672244	Transport & leisure	-0.171185	3	0.890481
	Utilities	0.418138	7	0.350539	Utilities	0.169333	7	0.716635
Test Stat		14.06626				9.507732		
p-value		0.169991				0.484688		
2007-08 CEO Tcash	EPS Growth				EBITDA			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.61423	5	0.270361	Chemicals & pharmaceuticals	-0.988243	5	0.001528
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-0.551388	3	0.628197	Engineering & other manufacture	0.490908	3	0.673331
	Finance	0.146401	12	0.649815	Finance		1	2 NA
	Food/drink & tobacco	0.153396	6	0.771711	Food/drink & tobacco	-0.381632	6	0.455343
	Media/marketing & telecoms	-0.702315	7	0.078492	Media/marketing & telecoms	0.41534	6	0.412815
	Oil/gas & minerals	0.277833	6	0.593973	Oil/gas & minerals	-0.113532	6	0.830434
	Other services	NA	1	NA	Other services	NA	1	NA
	Property	-0.876959	4	0.123041	Property	-0.853511	4	0.146489
	Retail & distribution	0.207336	6	0.693452	Retail & distribution	-0.521961	6	0.288161
	Transport & leisure	-0.06375	4	0.93625	Transport & leisure	-0.111081	4	0.888919
	Utilities	-0.746646	4	0.253354	Utilities	0.615791	4	0.384209
Test Stat		7.450928				13.88075		
p-value		0.682298				0.126631		
2006-07 CEO TCash	EPS Growth				EBITDA			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	-0.637131	6	0.173621	Chemicals & pharmaceuticals	-0.640985	6	0.1702
	Construction & building materials	-0.125831	3	0.91968	Construction & building materials	-0.980891	3	0.124653
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	0.999907	3	0.008685	Engineering & other manufacture	-0.571969	3	0.61236
	Finance	0.323906	11	0.331191	Finance	NA	1	NA
	Food/drink & tobacco	0.083356	8	0.84443	Food/drink & tobacco	-0.252244	8	0.546722
	Media/marketing & telecoms	-0.159122	9	0.682602	Media/marketing & telecoms	0.142258	7	0.760932
	Oil/gas & minerals	0.841466	5	0.073945	Oil/gas & minerals	-0.640275	5	0.244536
	Other services	NA	1	NA	Other services	NA	1	NA
	Property	0.240654	4	0.759346	Property	-0.519102	4	0.480899
	Retail & distribution	-0.68277	5	0.203969	Retail & distribution	0.676773	5	0.20957
	Transport & leisure		1	2 NA	Transport & leisure		1	2 NA
	Utilities	-0.599601	4	-0.599601	Utilities	0.580588	4	0.419412
Test Stat		7.732332				4.994557		
p-value		0.654964				0.834783		
2005-06 CEO TCash	EPS Growth				EBITDA			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	-0.04348	7	0.926257	Chemicals & pharmaceuticals	0.23706	7	0.608767
	Construction & building materials	-1	2	NA	Construction & building materials		1	2 NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	0.736247	4	0.263753	Engineering & other manufacture	0.910067	4	0.089933
	Finance	0.089737	16	0.741024	Finance	NA	0	NA
	Food/drink & tobacco	-0.121172	9	0.75615	Food/drink & tobacco	-0.256494	9	0.50528
	Media/marketing & telecoms	0.390001	9	0.299435	Media/marketing & telecoms	-0.193982	7	0.676847
	Oil/gas & minerals	-0.86588	5	0.057761	Oil/gas & minerals	0.385501	5	0.521609
	Other services	0.876835	5	0.050918	Other services	0.637293	5	0.247457
	Property	0.644132	4	0.355868	Property	-0.5333	4	0.466701
	Retail & distribution	-0.561378	9	0.11577	Retail & distribution	-0.460404	9	0.212356
	Transport & leisure	0.390541	3	0.744576	Transport & leisure	0.938152	3	0.225073
	Utilities	0.864785	4	0.135215	Utilities	-0.737129	4	0.262871
Test Stat		13.90862				7.175071		
p-value		0.238091				0.70882		
2004-05 CEO TCash	EPS Growth				EBITDA			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.19614	4	0.80386	Chemicals & pharmaceuticals	0.491308	4	0.508692
	Construction & building materials	-1	2	NA	Construction & building materials		1	2 NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture		1	2 NA	Engineering & other manufacture		-1	2 NA
	Finance	0.052581	9	0.89313	Finance	NA	0	NA
	Food/drink & tobacco	-0.231037	7	0.618163	Food/drink & tobacco	-0.107301	7	0.818888
	Media/marketing & telecoms	0.012208	7	0.979277	Media/marketing & telecoms	-0.49368	5	0.397986
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA
	Other services	0.649446	3	0.550001	Other services	0.305213	3	0.802545
	Property	-1	2	NA	Property		1	2 NA
	Retail & distribution	-0.346007	3	0.775074	Retail & distribution	0.139925	3	0.910627
	Transport & leisure	0.989251	3	0.093424	Transport & leisure	-0.805845	3	0.403423
	Utilities	-0.110817	5	0.859193	Utilities	-0.654296	5	0.230929
Test Stat		0.2817				1.429166		
p-value		0.999985				0.984661		

H3m: Pay-Performance relationships by Industry

2008-09 CEO Tcash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.888405	4	0.111595	Chemicals & pharmaceuticals	-0.545062	4	0.454938
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	1	2	NA
	Finance	-0.212693	15	0.44662	Finance	0.22451	15	0.421144
	Food/drink & tobacco	0.865921	7	0.011747	Food/drink & tobacco	0.33998	7	0.455602
	Media/marketing & telecoms	0.053178	5	0.932323	Media/marketing & telecoms	0.090387	5	0.885072
	Oil/gas & minerals	-0.004801	13	0.98758	Oil/gas & minerals	0.236522	13	0.436568
	Other services	-0.682535	5	0.204188	Other services	-0.670108	5	0.215843
	Property	0.987396	3	0.101184	Property	0.983709	3	0.115068
	Retail & distribution	0.980346	5	0.003298	Retail & distribution	0.597896	5	0.286902
	Transport & leisure	-0.277944	3	0.820694	Transport & leisure	0.28522	3	0.815867
	Utilities	0.404483	7	0.368093	Utilities	0.893754	7	0.006669
Test Stat		20.16782				8.991046		
p-value		0.027705				0.532954		
2007-08 CEO Tcash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.754666	5	0.14038	Chemicals & pharmaceuticals	0.844445	4	0.155555
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	0.8986	3	0.28917	Engineering & other manufacture	0.214943	3	0.862087
	Finance	-0.144153	12	0.654895	Finance	0.009811	11	0.977161
	Food/drink & tobacco	0.222351	6	0.67197	Food/drink & tobacco	-0.488381	6	0.325672
	Media/marketing & telecoms	0.253812	6	0.627457	Media/marketing & telecoms	0.557367	7	0.19363
	Oil/gas & minerals	0.202612	6	0.700241	Oil/gas & minerals	0.198821	6	0.705698
	Other services	NA	1	NA	Other services	NA	1	NA
	Property	-0.67184	4	0.32816	Property	-0.156515	4	0.843485
	Retail & distribution	0.11501	6	0.828246	Retail & distribution	0.343996	6	0.504359
	Transport & leisure	-0.326923	4	0.673077	Transport & leisure	0.137486	4	0.862514
	Utilities	-0.267531	4	0.732469	Utilities	0.020532	4	0.979468
Test Stat		3.395093				3.907843		
p-value		0.970541				0.951409		
2006-07 CEO TCash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.172967	6	0.743137	Chemicals & pharmaceuticals	0.087852	6	0.868561
	Construction & building materials	-0.575199	3	0.60985	Construction & building materials	-0.144534	3	0.907663
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	0.000804	3	0.999488	Engineering & other manufacture	0.300854	3	0.805457
	Finance	-0.293835	11	0.380474	Finance	-0.228549	11	0.49907
	Food/drink & tobacco	-0.422464	8	0.297083	Food/drink & tobacco	-0.269904	8	0.51797
	Media/marketing & telecoms	0.377728	8	0.356244	Media/marketing & telecoms	0.079829	8	0.850955
	Oil/gas & minerals	0.265553	5	0.665905	Oil/gas & minerals	0.49025	5	0.401788
	Other services	NA	1	NA	Other services	NA	1	NA
	Property	-0.496166	4	0.503834	Property	-0.704601	4	0.295399
	Retail & distribution	0.488023	5	0.404261	Retail & distribution	0.283497	5	0.643935
	Transport & leisure	-1	2	NA	Transport & leisure	1	2	NA
	Utilities	-0.837623	4	0.162377	Utilities	-0.878751	4	0.121249
Test Stat		4.917525				3.889702		
p-value		0.896619				0.952186		
2005-06 CEO TCash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	-0.221384	7	0.633308	Chemicals & pharmaceuticals	0.577852	7	0.174224
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-0.988291	4	0.011709	Engineering & other manufacture	-0.654914	4	0.345086
	Finance	-0.121852	16	0.653034	Finance	-0.011154	16	0.967296
	Food/drink & tobacco	0.21793	9	0.573234	Food/drink & tobacco	0.278562	9	0.467945
	Media/marketing & telecoms	-0.133052	8	0.753456	Media/marketing & telecoms	0.10658	7	0.820091
	Oil/gas & minerals	0.383879	5	0.523514	Oil/gas & minerals	0.309058	5	0.612852
	Other services	0.624061	5	0.260531	Other services	0.949406	5	0.013557
	Property	-0.989668	4	0.010332	Property	0.510894	4	0.489106
	Retail & distribution	-0.648782	9	0.058704	Retail & distribution	0.351802	9	0.353177
	Transport & leisure	-0.827537	3	0.379482	Transport & leisure	0.822244	3	0.385444
	Utilities	-0.084869	4	0.915131	Utilities	0.422252	4	0.577748
Test Stat		17.09021				7.865635		
p-value		0.105235				0.725287		
2004-05 CEO Tcash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	-0.115375	4	0.884625	Chemicals & pharmaceuticals	-0.367301	4	0.632699
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-1	2	NA	Engineering & other manufacture	1	2	NA
	Finance	-0.409594	9	0.27361	Finance	-0.20525	9	0.596271
	Food/drink & tobacco	-0.194166	7	0.676552	Food/drink & tobacco	-0.278853	7	0.544793
	Media/marketing & telecoms	-0.178969	6	0.734413	Media/marketing & telecoms	0.030075	5	0.961713
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA
	Other services	0.380901	3	0.751228	Other services	-0.077604	3	0.950546
	Property	-1	2	NA	Property	-1	2	NA
	Retail & distribution	0.828471	3	0.378422	Retail & distribution	0.355389	3	0.768697
	Transport & leisure	-0.80631	3	0.402922	Transport & leisure	-0.997962	3	0.04065
	Utilities	0.836208	5	0.07759	Utilities	0.523446	5	0.365356
Test Stat		4.154998				1.252029		
p-value		0.842875				0.996101		

H3m: Pay-Performance relationships by Industry

2008-09 CEO Tcash	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.562417	4	0.437583	Chemicals & pharmaceuticals	0.454515	4	0.545485
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	1	2	NA
	Finance	0.104683	15	0.710424	Finance	0.06304	15	0.823385
	Food/drink & tobacco	-0.16648	7	0.721275	Food/drink & tobacco	0.265958	7	0.564293
	Media/marketing & telecoms	0.215868	5	0.727298	Media/marketing & telecoms	0.196956	4	0.803044
	Oil/gas & minerals	0.559334	13	0.046872	Oil/gas & minerals	0.179604	13	0.557117
	Other services	-0.581364	5	0.303902	Other services	-0.110117	5	0.860078
	Property	-0.836819	3	0.368825	Property	-0.798991	3	0.410735
	Retail & distribution	0.758189	5	0.137446	Retail & distribution	-0.76983	4	0.23017
	Transport & leisure	-0.777098	3	0.433382	Transport & leisure	-0.128549	3	0.917936
	Utilities	0.547484	7	0.203348	Utilities	0.427844	7	0.338279
Test Stat		5.774253				2.158262		
p-value		0.83386				0.994977		
2007-08 CEO Tcash	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.913445	5	0.030168	Chemicals & pharmaceuticals	-0.306172	5	0.616349
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-0.400083	3	0.737963	Engineering & other manufacture	0.206103	3	0.867844
	Finance	0.566743	12	0.05468	Finance	-0.040534	12	0.900468
	Food/drink & tobacco	-0.160786	6	0.760899	Food/drink & tobacco	0.118373	6	0.823271
	Media/marketing & telecoms	-0.565574	7	0.185736	Media/marketing & telecoms	0.81762	6	0.04686
	Oil/gas & minerals	0.233788	6	0.655707	Oil/gas & minerals	0.150821	6	0.775484
	Other services	NA	1	NA	Other services	NA	1	NA
	Property	-0.162908	4	0.837092	Property	0.737425	4	0.262575
	Retail & distribution	0.450844	6	0.369553	Retail & distribution	-0.121584	6	0.818522
	Transport & leisure	-0.353113	4	0.646887	Transport & leisure	-0.93624	4	0.06376
	Utilities	0.634152	4	0.365848	Utilities	-0.149954	4	0.850046
Test Stat		9.333167				8.012971		
p-value		0.500804				0.62757		
2006-07 CEO TCash	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.382487	6	0.454248	Chemicals & pharmaceuticals	-0.700395	5	0.187761
	Construction & building materials	-0.981235	3	0.123522	Construction & building materials	0.272256	3	0.82446
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	0.502276	3	0.664992	Engineering & other manufacture	0.64703	3	0.552022
	Finance	0.041342	11	0.903938	Finance	0.450549	10	0.1913
	Food/drink & tobacco	0.339649	8	0.410441	Food/drink & tobacco	-0.425602	8	0.293125
	Media/marketing & telecoms	-0.664046	9	0.051105	Media/marketing & telecoms	-0.425747	8	0.292943
	Oil/gas & minerals	0.102904	5	0.869211	Oil/gas & minerals	-0.171459	5	0.782766
	Other services	NA	1	NA	Other services	NA	1	NA
	Property	-0.006555	4	0.993445	Property	-0.211309	4	0.788692
	Retail & distribution	-0.812196	5	0.094899	Retail & distribution	0.528057	5	0.360361
	Transport & leisure	1	2	NA	Transport & leisure	-1	2	NA
	Utilities	-0.74267	4	0.25733	Utilities	-0.512097	4	0.487903
Test Stat		7.743928				6.017305		
p-value		0.653834				0.813807		
2005-06 CEO TCash	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.442433	7	0.320203	Chemicals & pharmaceuticals	0.364428	6	0.477557
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-0.944046	4	0.055954	Engineering & other manufacture	0.948572	4	0.051428
	Finance	0.118899	16	0.660968	Finance	0.094983	16	0.72641
	Food/drink & tobacco	0.0171	9	0.965173	Food/drink & tobacco	-0.109369	8	0.796563
	Media/marketing & telecoms	-0.028459	9	0.942063	Media/marketing & telecoms	0.407798	8	0.31592
	Oil/gas & minerals	0.71592	5	0.173805	Oil/gas & minerals	0.111236	5	0.858663
	Other services	0.372808	5	0.536563	Other services	0.982098	5	0.002868
	Property	0.866561	4	0.133439	Property	0.83073	4	0.16927
	Retail & distribution	0.227248	8	0.588352	Retail & distribution	-0.412302	9	0.270137
	Transport & leisure	-0.938932	3	0.223634	Transport & leisure	-0.711201	3	0.496303
	Utilities	0.479033	4	0.520967	Utilities	0.353073	4	0.646927
Test Stat		7.185208				16.26422		
p-value		0.783893				0.131602		
2004-05 CEO Tcash	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.033576	4	0.966424	Chemicals & pharmaceuticals	0.077738	4	0.922262
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	-1	2	NA
	Finance	0.259738	9	0.499718	Finance	-0.163577	9	0.674105
	Food/drink & tobacco	-0.068723	7	0.883607	Food/drink & tobacco	0.24235	6	0.643592
	Media/marketing & telecoms	-0.1866	7	0.688704	Media/marketing & telecoms	-0.666865	6	0.147983
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA
	Other services	0.798318	3	0.411447	Other services	0.999839	3	0.011425
	Property	-1	2	NA	Property	1	2	NA
	Retail & distribution	-0.282723	3	0.817524	Retail & distribution	0.225536	3	0.855173
	Transport & leisure	-0.960553	3	0.179408	Transport & leisure	-0.998247	3	0.037699
	Utilities	-0.152153	5	0.807023	Utilities	-0.424339	5	0.476398
Test Stat		0.628704				1.894915		
p-value		0.999683				0.984066		

H3m: Pay-Performance relationships by Industry

2008-09 CEO Tcomp					EBITDA				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.36803	4	0.63197	Chemicals & pharmaceuticals	0.698947	4	0.301053		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	1	2	NA	Engineering & other manufacture	1	2	NA		
Finance	0.23769	15	0.393644	Finance	0.612347	4	0.387653		
Food/drink & tobacco	0.55829	7	0.192736	Food/drink & tobacco	0.078169	7	0.867701		
Media/marketing & telecoms	0.14429	5	0.81692	Media/marketing & telecoms	-0.836447	4	0.163553		
Media/marketing & telecoms	0.05856	13	0.849296	Oil/gas & minerals	0.175176	13	0.567036		
Other services	-0.63566	5	0.249063	Other services	0.710849	5	0.17833		
Property	-0.56536	3	0.617477	Property	-0.987255	3	0.10175		
Retail & distribution	-0.73228	5	0.159438	Retail & distribution	-0.408967	5	0.49419		
Transport & leisure	-0.89724	3	0.291144	Transport & leisure	-0.696611	3	-0.696611		
Utilities	-0.86962	7	0.010976	Utilities	-0.645069	7	-0.645069		
Test Stat	12.374			Test Stat	7.201155				
p-value	0.26081			p-value	0.706328				
2007-08 CEO Tcomp					EBITDA				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.77427	5	0.124291	Chemicals & pharmaceuticals	-0.91815	5	0.027762		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	-0.39154	3	0.743886	Engineering & other manufacture	0.325374	3	0.789019		
Finance	0.415	12	0.179759	Finance	1	2	NA		
Food/drink & tobacco	0.47509	6	0.340982	Food/drink & tobacco	-0.118775	6	0.822676		
Media/marketing & telecoms	-0.20845	7	0.653767	Media/marketing & telecoms	-0.391757	6	0.442427		
Oil/gas & minerals	-0.17571	6	0.739146	Oil/gas & minerals	0.007394	6	0.988908		
Other services	NA	1	NA	Other services	NA	1	NA		
Property	-0.42435	4	0.575649	Property	-0.069057	4	0.930943		
Retail & distribution	0.17591	6	0.738853	Retail & distribution	-0.503316	6	0.308777		
Transport & leisure	-0.83919	4	0.160811	Transport & leisure	0.164586	4	0.835414		
Utilities	-0.42178	4	0.578225	Utilities	0.261969	4	0.738031		
Test Stat	6.15173			Test Stat	4.418251				
p-value	0.80236			p-value	0.881795				
2006-07 CEO Tcomp					EBITDA				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.32399	6	0.531015	Chemicals & pharmaceuticals	-0.238798	6	0.648611		
Construction & building materials	0.70612	3	0.500883	Construction & building materials	0.895145	3	0.294143		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	0.98813	3	0.098176	Engineering & other manufacture	-0.451399	3	0.70185		
Finance	0.21073	11	0.533952	Finance	NA	1	NA		
Food/drink & tobacco	-0.33305	8	0.420168	Food/drink & tobacco	-0.585146	8	0.127566		
Media/marketing & telecoms	-0.35584	9	0.347288	Media/marketing & telecoms	0.639447	7	0.122009		
Oil/gas & minerals	0.36373	5	0.547307	Oil/gas & minerals	0.39714	5	0.507971		
Other services	NA	1	NA	Other services	NA	1	NA		
Property	-0.2572	4	0.742801	Property	-0.344183	4	0.655818		
Retail & distribution	-0.52332	5	0.36549	Retail & distribution	-0.533624	5	0.354354		
Transport & leisure	1	2	NA	Transport & leisure	-1	2	NA		
Utilities	0.76349	4	0.23651	Utilities	0.262832	4	0.737168		
Test Stat	4.15008			Test Stat	5.856913				
p-value	0.94032			p-value	0.754149				
2005-06 CEO Tcomp					EBITDA				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	-0.41922	7	0.349161	Chemicals & pharmaceuticals	-0.044365	7	0.924757		
Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	0.1744	4	0.825596	Engineering & other manufacture	-0.378271	4	0.621729		
Finance	0.07086	16	0.794253	Finance	NA	0	NA		
Food/drink & tobacco	0.29589	9	0.439488	Food/drink & tobacco	0.135146	9	0.728839		
Media/marketing & telecoms	-0.1334	9	0.732228	Media/marketing & telecoms	-0.756533	7	0.049026		
Oil/gas & minerals	0.17382	5	0.779808	Oil/gas & minerals	0.436965	5	0.461889		
Other services	-0.24165	5	0.695348	Other services	0.059931	5	0.923739		
Property	0.16941	4	0.830588	Property	-0.020591	4	0.979409		
Retail & distribution	-0.20787	9	0.591483	Retail & distribution	0.187462	9	0.629114		
Transport & leisure	0.9222	3	0.252774	Transport & leisure	0.430215	3	0.716875		
Utilities	0.77393	4	0.226074	Utilities	-0.577844	4	0.422156		
Test Stat	3.10117			Test Stat	5.100638				
p-value	0.98932			p-value	0.884355				
2004-05 CEO Tcomp					EBITDA				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.95942	4	0.040576	Chemicals & pharmaceuticals	-0.594463	4	0.405537		
Construction & building materials	-1	2	NA	Construction & building materials	1	2	NA		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	1	2	NA	Engineering & other manufacture	-1	2	NA		
Finance	0.2233	9	0.563584	Finance	NA	0	NA		
Food/drink & tobacco	-0.0258	7	0.956222	Food/drink & tobacco	0.770734	7	0.042537		
Media/marketing & telecoms	-0.35843	7	0.429837	Media/marketing & telecoms	0.691228	5	0.196145		
Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA		
Other services	0.96369	3	0.172085	Other services	0.785678	3	0.424629		
Property	1	2	NA	Property	-1	2	NA		
Retail & distribution	-0.02833	3	0.981963	Retail & distribution	-0.498641	3	0.667665		
Transport & leisure	-0.19144	3	0.877368	Transport & leisure	0.628461	3	0.56737		
Utilities	-0.30268	5	0.620586	Utilities	-0.563322	5	0.322739		
Test Stat	4.76069			Test Stat	5.277723				
p-value	0.78282			p-value	0.626112				

H3m: Pay-Performance relationships by Industry

2008-09 CEO Tcomp					2008-09 CEO Tcomp				
Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.93757	4	0.06243	Chemicals & pharmaceuticals	0.00271	4	0.99729		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	1	2	NA	Engineering & other manufacture	1	2	NA		
Finance	-0.329158	15	0.230927	Finance	-0.050703	15	0.857584		
Food/drink & tobacco	0.801689	7	0.030133	Food/drink & tobacco	0.30323	7	0.508557		
Media/marketing & telecoms	0.53233	5	0.355749	Media/marketing & telecoms	0.459983	5	0.435695		
Oil/gas & minerals	0.042417	13	0.890568	Oil/gas & minerals	-0.492495	13	0.087305		
Other services	-0.051678	5	0.934231	Other services	-0.016398	5	0.979123		
Property	0.998871	3	0.030248	Property	0.99967	3	0.016363		
Retail & distribution	-0.155341	5	0.803013	Retail & distribution	0.191674	5	0.757456		
Transport & leisure	-0.77092	3	0.439594	Transport & leisure	-0.304482	3	0.803033		
Utilities	-0.194185	7	0.676522	Utilities	-0.639981	7	0.121597		
Test Stat	9.992943				Test Stat	5.084059			
p-value	0.441113				p-value	0.885493			
2007-08 CEO TComp					2007-08 CEO TComp				
Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.757976	5	0.137622	Chemicals & pharmaceuticals	0.8905	4	0.1095		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	0.9631	3	0.173481	Engineering & other manufacture	0.034903	3	0.977776		
Finance	-0.324289	12	0.303775	Finance	0.127106	11	0.709582		
Food/drink & tobacco	0.032782	6	0.950844	Food/drink & tobacco	-0.184705	6	0.726093		
Media/marketing & telecoms	0.112252	6	0.832329	Media/marketing & telecoms	0.11928	7	0.798942		
Oil/gas & minerals	0.09582	6	0.85671	Oil/gas & minerals	-0.035708	6	0.946461		
Other services	NA	1	NA	Other services	NA	1	NA		
Property	-0.386753	4	0.613247	Property	-0.634257	4	0.365743		
Retail & distribution	0.074216	6	0.888881	Retail & distribution	0.392777	6	0.441132		
Transport & leisure	0.962423	4	0.037577	Transport & leisure	-0.873992	4	0.126008		
Utilities	-0.031056	4	0.968944	Utilities	0.146019	4	0.853981		
Test Stat	7.069271				Test Stat	5.149569			
p-value	0.71889				p-value	0.880965			
2006-07 CEO Tcomp					2006-07 CEO Tcomp				
Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.000451	6	0.999324	Chemicals & pharmaceuticals	-0.373182	6	0.466212		
Construction & building materials	-0.044982	3	0.971354	Construction & building materials	-0.490621	3	0.67354		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	-0.139313	3	0.911021	Engineering & other manufacture	0.164269	3	0.894947		
Finance	0.58584	11	0.058243	Finance	-0.045637	11	0.894004		
Food/drink & tobacco	0.045316	8	0.915149	Food/drink & tobacco	-0.597088	8	0.118089		
Media/marketing & telecoms	0.026511	8	0.950315	Media/marketing & telecoms	0.587318	8	0.125811		
Oil/gas & minerals	-0.822481	5	0.087354	Oil/gas & minerals	-0.587306	5	0.297763		
Other services	NA	1	NA	Other services	NA	1	NA		
Property	-0.989418	4	0.010582	Property	-0.857557	4	0.142443		
Retail & distribution	0.636008	5	0.248719	Retail & distribution	0.269109	5	0.661542		
Transport & leisure	-1	2	NA	Transport & leisure	1	2	NA		
Utilities	0.222152	4	0.777848	Utilities	0.040461	4	0.959539		
Test Stat	14.13248				Test Stat	7.332257			
p-value	0.167034				p-value	0.693749			
2005-06 CEO Tcomp					2005-06 CEO Tcomp				
Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	-0.078233	7	0.867594	Chemicals & pharmaceuticals	-0.175807	7	0.706132		
Construction & building materials	1	2	NA	Construction & building materials	1	2	NA		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	0.60025	4	0.39975	Engineering & other manufacture	0.617527	4	0.382473		
Finance	-0.062499	16	0.818137	Finance	-0.011451	16	0.966428		
Food/drink & tobacco	0.728086	9	0.026139	Food/drink & tobacco	0.333867	9	0.379904		
Media/marketing & telecoms	0.577891	8	0.133525	Media/marketing & telecoms	0.48014	7	0.275499		
Oil/gas & minerals	0.110561	5	0.859516	Oil/gas & minerals	-0.397309	5	0.507774		
Other services	-0.766229	5	0.13082	Other services	-0.38745	5	0.51932		
Property	-0.849656	4	0.150344	Property	0.371947	4	0.628053		
Retail & distribution	-0.102574	9	0.792862	Retail & distribution	0.204672	9	0.597328		
Transport & leisure	-0.984476	3	0.11232	Transport & leisure	0.986077	3	0.106358		
Utilities	0.194921	4	0.805079	Utilities	0.083329	4	0.916671		
Test Stat	11.01227				Test Stat	3.151807			
p-value	0.442236				p-value	0.988564			
2004-05 CEO Tcomp					2004-05 CEO Tcomp				
Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.728537	4	0.271463	Chemicals & pharmaceuticals	0.00262	4	0.99738		
Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	-1	2	NA	Engineering & other manufacture	1	2	NA		
Finance	-0.282045	9	0.462161	Finance	-0.120424	9	0.757619		
Food/drink & tobacco	-0.610323	7	0.145535	Food/drink & tobacco	-0.317148	7	0.488257		
Media/marketing & telecoms	0.235024	6	0.653955	Media/marketing & telecoms	-0.364897	5	0.545925		
Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA		
Other services	0.83294	3	0.373312	Other services	0.493359	3	0.671538		
Property	1	2	NA	Property	1	2	NA		
Retail & distribution	-0.560284	3	0.621384	Retail & distribution	0.018313	3	0.988341		
Transport & leisure	0.62785	3	0.56787	Transport & leisure	0.109511	3	0.930143		
Utilities	0.059558	5	0.924213	Utilities	-0.611072	5	0.273538		
Test Stat	3.058549				Test Stat	0.632806			
p-value	0.93063				p-value	0.999675			

H3m: Pay-Performance relationships by Industry

2008-09 CEO Tcomp	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.451324	4	0.548676	Chemicals & pharmaceuticals	0.903101	4	0.096899
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	1	2	NA
	Finance	0.379297	15	0.163217	Finance	0.181439	15	0.517533
	Food/drink & tobacco	-0.109859	7	0.81462	Food/drink & tobacco	0.371842	7	0.411462
	Media/marketing & telecoms	-0.430159	5	0.469698	Media/marketing & telecoms	-0.663476	4	0.336524
	Oil/gas & minerals	-0.291227	13	0.334354	Oil/gas & minerals	0.306766	13	0.30798
	Other services	0.396349	5	0.508896	Other services	0.863305	5	0.059409
	Property	-0.931276	3	0.237393	Property	-0.905293	3	0.279303
	Retail & distribution	-0.749958	5	0.144329	Retail & distribution	0.944596	4	0.055404
	Transport & leisure	-0.99663	3	0.052282	Transport & leisure	-0.665031	3	0.536836
	Utilities	0.142153	7	0.761105	Utilities	0.269254	7	0.559288
Test Stat		5.84326				6.838409		
p-value		0.828255				0.740607		
2007-08 CEO TComp	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.936667	5	0.01895	Chemicals & pharmaceuticals	-0.405236	5	0.498529
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-0.227864	3	0.853652	Engineering & other manufacture	0.025864	3	0.983533
	Finance	0.308305	12	0.329578	Finance	-0.066275	12	0.837853
	Food/drink & tobacco	-0.343796	6	0.504624	Food/drink & tobacco	0.152413	6	0.773151
	Media/marketing & telecoms	0.226449	7	0.625349	Media/marketing & telecoms	0.63174	6	0.178452
	Oil/gas & minerals	-0.384837	6	0.451242	Oil/gas & minerals	-0.360369	6	0.482847
	Other services	NA	1	NA	Other services	NA	1	NA
	Property	-0.900835	4	0.099166	Property	0.834309	4	0.165691
	Retail & distribution	0.540234	6	0.268484	Retail & distribution	-0.095178	6	0.857664
	Transport & leisure	-0.580093	4	0.419907	Transport & leisure	0.746491	4	0.253509
	Utilities	0.396284	4	0.603716	Utilities	0.133021	4	0.866979
Test Stat		10.81619				4.817992		
p-value		0.372017				0.903		
2006-07 CEO Tcomp	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.140796	6	0.790201	Chemicals & pharmaceuticals	-0.018884	5	0.975957
	Construction & building materials	0.894352	3	0.295274	Construction & building materials	-0.803756	3	0.405664
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	0.376169	3	0.754483	Engineering & other manufacture	0.53382	3	0.641512
	Finance	-0.085397	11	0.802859	Finance	-0.381678	10	0.276446
	Food/drink & tobacco	-0.337029	8	0.414294	Food/drink & tobacco	-0.412878	8	0.309333
	Media/marketing & telecoms	0.093666	9	0.810574	Media/marketing & telecoms	0.24165	8	0.564236
	Oil/gas & minerals	-0.901415	5	0.036603	Oil/gas & minerals	0.7701	5	0.127663
	Other services	NA	1	NA	Other services	NA	1	NA
	Property	0.180136	4	0.819864	Property	-0.933158	4	0.066842
	Retail & distribution	-0.515327	5	0.374189	Retail & distribution	-0.647869	5	0.237139
	Transport & leisure	1	2	NA	Transport & leisure	-1	2	NA
	Utilities	0.473305	4	0.526695	Utilities	-0.521911	4	0.478089
Test Stat		5.272479				7.594533		
p-value		0.872249				0.668375		
2005-06 CEO Tcomp	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.70729	7	0.075477	Chemicals & pharmaceuticals	0.304832	6	0.556915
	Construction & building materials	-1	2	NA	Construction & building materials	1	2	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	
	Engineering & other manufacture	0.481295	4	0.518705	Engineering & other manufacture	-0.328704	4	0.671296
	Finance	0.133287	16	0.622645	Finance	0.137224	16	0.612311
	Food/drink & tobacco	0.29721	9	0.437345	Food/drink & tobacco	-0.151609	8	0.720058
	Media/marketing & telecoms	0.715005	9	0.03038	Media/marketing & telecoms	-0.059937	8	0.887887
	Oil/gas & minerals	0.254999	5	0.678879	Oil/gas & minerals	0.663339	5	0.222267
	Other services	0.296	5	0.6287	Other services	-0.533396	5	0.3546
	Property	0.886173	4	0.113827	Property	0.814753	4	0.185247
	Retail & distribution	0.094706	8	0.823485	Retail & distribution	0.208331	9	0.590644
	Transport & leisure	-0.432255	3	0.715436	Transport & leisure	-0.018683	3	0.988106
	Utilities	0.170017	4	0.715436	Utilities	0.598036	4	0.401964
Test Stat		4.980444				4.7571		
p-value		0.93211				0.942357		
2004-05 CEO Tcomp	TSR				ROE			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.796075	4	0.203925	Chemicals & pharmaceuticals	-0.464884	4	0.535116
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	-1	2	NA
	Finance	0.123021	9	0.752524	Finance	0.100838	9	0.796307
	Food/drink & tobacco	-0.197048	7	0.671937	Food/drink & tobacco	0.761611	6	0.07847
	Media/marketing & telecoms	-0.058384	7	0.901053	Media/marketing & telecoms	0.321114	6	0.534885
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA
	Other services	0.998613	3	0.03353	Other services	0.818744	3	0.389341
	Property	1	2	NA	Property	-1	2	NA
	Retail & distribution	-0.09487	3	0.939513	Retail & distribution	-0.572161	3	0.612211
	Transport & leisure	0.321859	3	0.791384	Transport & leisure	-0.013339	3	0.991508
	Utilities	-0.408855	5	0.49432	Utilities	-0.074441	5	0.905307
Test Stat		1.824992				2.616922		
p-value		0.985915				0.956056		

H3m: Pay-Performance relationships by Industry

2008-09 FD					EBITDA				
EPS Growth									
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.327782	4	0.672218	Chemicals & pharmaceuticals	0.922795	4	0.077205	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.146775	5	0.813794	Engineering & other manufacture	0.14721	5	0.813245	
	Finance	0.803947	9	0.009016	Finance	NA	1	NA	
	Food/drink & tobacco	0.376884	5	0.531751	Food/drink & tobacco	-0.785126	5	0.115636	
	Media/marketing & telecoms	0.320544	5	0.598972	Media/marketing & telecoms	-0.542111	4	0.457889	
	Oil/gas & minerals	-0.195663	7	0.674155	Oil/gas & minerals	-0.371549	7	0.41186	
	Other services	-0.218299	4	0.781701	Other services	0.974973	4	0.025027	
	Property	-0.535716	3	0.640084	Property	-0.057761	3	0.963208	
	Retail & distribution	-0.327255	4	0.672745	Retail & distribution	-0.287651	4	0.712349	
	Transport & leisure	0.617584	3	0.576223	Transport & leisure	0.846018	3	0.357986	
	Utilities	0.636947	6	0.173785	Utilities	0.384457	6	0.451727	
Test Stat		6.370947				11.16323			
p-value		0.847503				0.344943			
2007-08 FD					EBITDA				
EPS Growth									
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.293093	4	0.706907	Chemicals & pharmaceuticals	-0.924389	4	0.075611	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.113252	4	0.886748	Engineering & other manufacture	0.356147	4	0.643853	
	Finance	-0.122242	8	0.773069	Food/drink & tobacco	0.630203	6	0.17984	
	Food/drink & tobacco	-0.338579	6	0.511539	Media/marketing & telecoms	0.519449	4	0.480551	
	Media/marketing & telecoms	-0.929161	5	0.022391	Oil/gas & minerals	-0.213939	5	0.729696	
	Oil/gas & minerals	-0.699861	5	0.188247	Other services	-1	2	NA	
	Other services	1	2	NA	Property	-0.993795	4	0.006205	
	Property	-0.793207	4	0.206793	Retail & distribution	-0.439815	6	0.382816	
	Retail & distribution	0.052719	6	0.920995	Transport & leisure	-0.449865	4	0.550135	
	Transport & leisure	-0.296184	4	0.703816	Utilities	-0.059612	5	0.924144	
	Utilities	-0.513934	5	0.37571					
Test Stat		5.85949				13.11916			
p-value		0.826927				0.157288			
2006-07 FD					EBITDA				
EPS Growth									
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.985187	4	0.014813	Chemicals & pharmaceuticals	-0.730459	4	0.269541	
	Construction & building materials	NA	1	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	Engineering & other manufacture	NA	1	NA	
	Finance	0.339321	9	0.371678	Finance	NA	1	NA	
	Food/drink & tobacco	0.469895	7	0.287351	Food/drink & tobacco	0.240068	7	0.604091	
	Media/marketing & telecoms	-0.789571	5	0.112146	Media/marketing & telecoms	0.900883	3	0.28584	
	Oil/gas & minerals	0.487294	3	0.675968	Oil/gas & minerals	0.696923	3	0.509104	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	-0.272356	3	0.824395	Property	-0.871608	3	0.326155	
	Retail & distribution	-0.874375	3	0.322543	Retail & distribution	0.220008	3	0.858783	
	Transport & leisure	1	2	NA	Transport & leisure	-1	2	NA	
	Utilities	-0.805344	5	0.10003	Utilities	-0.685535	5	0.201402	
Test Stat		12.08742				2.134394			
p-value		0.147346				0.952029			
2005-06 FD					EBITDA				
EPS Growth									
TCash vs	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.480178	4	0.519822	Chemicals & pharmaceuticals	0.092751	4	0.907249	
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.840728	4	0.159272	Engineering & other manufacture	0.864197	4	0.135803	
	Finance	0.110772	10	0.760639	Finance	NA	1	NA	
	Food/drink & tobacco	0.129583	8	0.759737	Food/drink & tobacco	-0.060785	8	0.886309	
	Media/marketing & telecoms	0.388225	7	0.389453	Media/marketing & telecoms	-0.502979	5	0.38772	
	Oil/gas & minerals	-0.804343	5	0.100787	Oil/gas & minerals	0.17234	5	0.781661	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	-0.540799	3	0.636244	Property	0.734559	3	0.474778	
	Retail & distribution	0.02575	5	0.967218	Retail & distribution	-0.963462	5	0.008338	
	Transport & leisure	0.578337	3	0.607403	Transport & leisure	0.458966	3	0.69644	
	Utilities	0.943173	5	0.016122	Utilities	-0.156012	5	0.802168	
Test Stat		9.730565				9.356591			
p-value		0.464441				0.40503			
2004-05 FD					EBITDA				
EPS Growth									
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.167199	3	0.893055	Chemicals & pharmaceuticals	-0.956469	3	0.188531	
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	-1	2	NA	
	Finance	-0.325253	9	0.393068	Finance	NA	1	NA	
	Food/drink & tobacco	0.169163	8	0.688818	Food/drink & tobacco	-0.0045	8	0.991563	
	Media/marketing & telecoms	-0.089404	9	0.819076	Media/marketing & telecoms	-0.173724	7	0.709507	
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA	
	Other services	-0.910911	3	0.27076	Other services	0.678287	3	0.525446	
	Property	-1	2	NA	Property	-1	2	NA	
	Retail & distribution	1	2	NA	Retail & distribution	1	2	NA	
	Transport & leisure	0.974157	3	0.145046	Transport & leisure	-0.691532	3	0.513873	
	Utilities	0.044228	4	0.955772	Utilities	-0.67773	4	0.32227	
Test Stat		0.72558				0.563705			
p-value		0.998131				0.996975			

H3m: Pay-Performance relationships by Industry

2008-09 FD Sales Growth					Net Income Growth				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.644662	4	0.355338	Chemicals & pharmaceuticals	-0.480335	4	0.519665	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.214238	5	0.729325	Engineering & other manufacture	-0.108309	5	0.862367	
	Finance	-0.037973	9	0.922734	Finance	0.00344	9	0.992992	
	Food/drink & tobacco	-0.123589	5	0.843043	Food/drink & tobacco	0.486939	5	0.405466	
	Media/marketing & telecoms	-0.091524	5	0.883631	Media/marketing & telecoms	-0.191848	5	0.757239	
	Oil/gas & minerals	-0.154212	7	0.741303	Oil/gas & minerals	0.019902	7	0.96622	
	Other services	0.140044	4	0.859956	Other services	0.185998	4	0.814002	
	Property	0.954508	3	0.192763	Property	0.579474	3	0.606516	
	Retail & distribution	0.203182	4	0.796818	Retail & distribution	0.973621	4	0.026379	
	Transport & leisure	0.782613	3	0.427773	Transport & leisure	0.994898	3	0.064334	
	Utilities	0.047965	6	0.928108	Utilities	0.03023	6	0.954669	
Test Stat		0.894295				5.356349			
p-value		0.999972				0.912689			
2007-08 FD Sales Growth					Net Income Growth				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.504047	4	0.495953	Chemicals & pharmaceuticals	0.785394	3	0.42492	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.886012	4	0.113988	Engineering & other manufacture	0.50359	4	0.49641	
	Finance	0.567169	8	0.142609	Finance	0.499274	7	0.253971	
	Food/drink & tobacco	0.239134	6	0.648136	Food/drink & tobacco	-0.227164	6	0.665116	
	Media/marketing & telecoms	0.583135	4	0.416865	Media/marketing & telecoms	0.903603	5	0.035403	
	Oil/gas & minerals	0.124236	5	0.842225	Oil/gas & minerals	-0.523118	5	0.365712	
	Other services	-1	2	NA	Other services	1	2	NA	
	Property	-0.655847	4	0.344153	Property	0.194934	4	0.805066	
	Retail & distribution	0.070437	6	0.89452	Retail & distribution	0.370885	6	0.469181	
	Transport & leisure	-0.040385	4	0.959615	Transport & leisure	-0.185499	4	0.814501	
	Utilities	0.736475	5	0.155814	Utilities	-0.806691	5	0.099015	
Test Stat		4.135686				9.40213			
p-value		0.941018				0.494412			
2006-07 FD Sales Growth					Net Income Growth				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.009549	4	0.990451	Chemicals & pharmaceuticals	0.267002	4	0.732998	
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	Engineering & other manufacture	NA	1	NA	
	Finance	0.163177	9	0.674867	Finance	0.181446	9	0.640352	
	Food/drink & tobacco	-0.49794	7	0.255446	Food/drink & tobacco	-0.216718	7	0.640667	
	Media/marketing & telecoms	0.3922	4	0.6078	Media/marketing & telecoms	-0.07494	4	0.92506	
	Oil/gas & minerals	0.803877	3	0.405534	Oil/gas & minerals	0.808251	3	0.400829	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	0.765808	3	0.444678	Property	0.335994	3	0.781856	
	Retail & distribution	-0.07602	3	0.951557	Retail & distribution	-0.999504	3	0.020057	
	Transport & leisure	-1	2	NA	Transport & leisure	-1	2	NA	
	Utilities	-0.209333	5	0.735429	Utilities	0.207087	5	0.738225	
Test Stat		1.516938				0.514512			
p-value		0.992423				0.999851			
2005-06 FD Sales Growth					Net Income Growth				
TCash vs	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.738865	4	0.261135	Chemicals & pharmaceuticals	0.635413	4	0.364587	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.71104	4	0.28896	Engineering & other manufacture	-0.497823	4	0.502177	
	Finance	0.276815	10	0.438773	Finance	0.174605	10	0.629484	
	Food/drink & tobacco	0.110792	8	0.793958	Food/drink & tobacco	0.231186	8	0.581724	
	Media/marketing & telecoms	-0.241418	6	0.644908	Media/marketing & telecoms	0.515609	5	0.373881	
	Oil/gas & minerals	0.291048	5	0.634726	Oil/gas & minerals	0.590094	5	0.294894	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	-0.901485	3	0.284956	Property	0.454453	3	0.69967	
	Retail & distribution	-0.056064	5	0.928655	Retail & distribution	-0.3114	5	0.610018	
	Transport & leisure	0.60869	3	0.583391	Transport & leisure	0.872409	3	0.325113	
	Utilities	0.806046	5	0.099501	Utilities	0.651038	5	0.234071	
Test Stat		4.260401				2.692796			
p-value		0.934836				0.987759			
2004-05 FD Sales Growth					Net Income Growth				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.906065	3	0.278144	Chemicals & pharmaceuticals	0.943991	3	0.214078	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-1	2	NA	Engineering & other manufacture	1	2	NA	
	Finance	0.084496	9	0.828887	Finance	-0.416786	9	0.264435	
	Food/drink & tobacco	0.078359	8	0.853677	Food/drink & tobacco	-0.032466	8	0.939168	
	Media/marketing & telecoms	-0.258675	8	0.536186	Media/marketing & telecoms	-0.288468	7	0.5304	
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA	
	Other services	-0.963206	3	0.17323	Other services	-0.737766	3	0.471762	
	Property	1	2	NA	Property	1	2	NA	
	Retail & distribution	1	2	NA	Retail & distribution	-1	2	NA	
	Transport & leisure	-0.669205	3	0.533269	Transport & leisure	-0.586228	3	0.601224	
	Utilities	0.946254	4	0.053746	Utilities	0.550678	4	0.449322	
Test Stat		3.534362				1.203496			
p-value		0.831573				0.990846			

H3m: Pay-Performance relationships by Industry

2008-09 FD					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.770686	4	0.229314	Chemicals & pharmaceuticals	0.604429	4	0.395571	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.120794	5	0.846575	Engineering & other manufacture	0.637659	5	0.247098	
	Finance	0.520246	9	0.151057	Finance	0.795163	9	0.010415	
	Food/drink & tobacco	-0.523362	5	0.365447	Food/drink & tobacco	-0.869595	5	0.055411	
	Media/marketing & telecoms	0.623168	5	0.261419	Media/marketing & telecoms	-0.815045	5	0.09279	
	Oil/gas & minerals	0.604892	7	0.150155	Oil/gas & minerals	0.656735	7	0.109046	
	Other services	0.211181	4	0.788819	Other services	0.665596	4	0.334404	
	Property	-0.787289	3	0.422968	Property	-0.805932	3	0.403329	
	Retail & distribution	-0.482351	4	0.517649	Retail & distribution	0.92358	3	0.250498	
	Transport & leisure	0.286397	3	0.815085	Transport & leisure	0.868218	3	0.330531	
	Utilities	0.390579	6	0.443923	Utilities	0.030468	6	0.954312	
Test Stat		4.126374				15.06422			
p-value		0.966073				0.179576			
2007-08 FD					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.942709	4	0.057291	Chemicals & pharmaceuticals	0.041695	4	0.958305	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.650544	4	0.349456	Engineering & other manufacture	0.522624	4	0.477376	
	Finance	-0.162683	8	0.700309	Finance	-0.142302	8	0.736764	
	Food/drink & tobacco	-0.563022	6	0.244705	Food/drink & tobacco	-0.049025	6	0.926521	
	Media/marketing & telecoms	-0.176083	5	0.776968	Media/marketing & telecoms	0.647871	5	0.237137	
	Oil/gas & minerals	0.529657	5	0.358632	Oil/gas & minerals	0.29509	5	0.629806	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	0.264301	4	0.735699	Property	0.481011	4	0.518989	
	Retail & distribution	0.337943	6	0.512383	Retail & distribution	-0.02375	6	0.964382	
	Transport & leisure	-0.626375	4	0.373625	Transport & leisure	-0.758969	4	0.241031	
	Utilities	0.445798	5	0.451798	Utilities	0.773244	5	0.125118	
Test Stat		7.037439				4.644111			
p-value		0.721906				0.91365			
2006-07 FD					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.918366	4	0.081635	Chemicals & pharmaceuticals	-0.80963	4	0.19037	
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	Engineering & other manufacture	NA	1	NA	
	Finance	0.290949	9	0.44752	Finance	0.015018	8	0.971845	
	Food/drink & tobacco	0.585343	7	0.167379	Food/drink & tobacco	-0.041288	7	0.929967	
	Media/marketing & telecoms	-0.354929	5	0.557767	Media/marketing & telecoms	0.125156	4	0.874844	
	Oil/gas & minerals	0.801864	3	0.407683	Oil/gas & minerals	-0.264119	3	0.829838	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	-0.918112	3	0.259427	Property	0.935635	3	0.229656	
	Retail & distribution	-0.902062	3	0.284106	Retail & distribution	0.04193	3	0.973299	
	Transport & leisure	1	2	NA	Transport & leisure	1	2	NA	
	Utilities	-0.198787	5	0.748574	Utilities	-0.261069	5	0.671412	
Test Stat		3.576002				1.231333			
p-value		0.893212				0.996323			
2005-06 FD					ROE				
TCash vs	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.504024	4	0.495976	Chemicals & pharmaceuticals	-0.288637	4	0.711363	
	Construction & building materials	-1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.81905	4	0.18095	Engineering & other manufacture	0.774336	4	0.225664	
	Finance	0.585862	10	0.075121	Finance	0.337103	10	0.340827	
	Food/drink & tobacco	0.355418	8	0.387586	Food/drink & tobacco	-0.098606	7	0.833414	
	Media/marketing & telecoms	-0.289558	7	0.528777	Media/marketing & telecoms	0.486759	6	0.327526	
	Oil/gas & minerals	0.437377	5	0.461417	Oil/gas & minerals	0.557167	5	0.329231	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	0.959667	3	0.181425	Property	0.727647	3	0.481228	
	Retail & distribution	0.30063	4	0.69937	Retail & distribution	-0.915158	5	0.029285	
	Transport & leisure	-0.094747	3	0.939591	Transport & leisure	-0.574855	3	0.610117	
	Utilities	0.799146	5	0.104741	Utilities	0.041036	5	0.947766	
Test Stat		5.851496				8.241334			
p-value		0.827582				0.605277			
2004-05 FD					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.208692	3	0.866159	Chemicals & pharmaceuticals	-0.988316	3	0.097414	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	-1	2	NA	
	Finance	0.821358	9	0.00663	Finance	-0.463285	9	0.209133	
	Food/drink & tobacco	0.184066	8	0.662592	Food/drink & tobacco	0.358894	7	0.429191	
	Media/marketing & telecoms	-0.063808	9	0.870451	Media/marketing & telecoms	-0.06918	7	0.882837	
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA	
	Other services	-0.931229	3	0.237475	Other services	1	2	NA	
	Property	-1	2	NA	Property	-1	2	NA	
	Retail & distribution	1	2	NA	Retail & distribution	1	2	NA	
	Transport & leisure	-0.813852	3	0.394734	Transport & leisure	-0.801484	3	0.408088	
	Utilities	0.303601	4	0.696399	Utilities	-0.342181	4	0.657819	
Test Stat		4.97993				1.914264			
p-value		0.662413				0.927412			

H3m: Pay-Performance relationships by Industry

2008-09 FD					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.248562	4	0.751438	Chemicals & pharmaceuticals	0.942173	4	0.057827	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.014834	5	0.981114	Engineering & other manufacture	0.564546	5	0.321452	
	Finance	0.823136	9	0.006414	Finance	NA	1	NA	
	Food/drink & tobacco	0.457564	5	0.438432	Food/drink & tobacco	-0.430175	5	0.46968	
	Media/marketing & telecoms	-0.346467	5	0.567857	Media/marketing & telecoms	-0.484909	4	0.515091	
	Oil/gas & minerals	-0.507073	7	0.245426	Oil/gas & minerals	0.489741	7	0.264598	
	Other services	0.114837	4	0.885163	Other services	-0.9801	4	0.0199	
	Property	-0.435173	3	0.713375	Property	-0.172058	3	0.889917	
	Retail & distribution	-0.38856	4	0.61144	Retail & distribution	-0.175239	4	0.824761	
	Transport & leisure	0.417803	3	0.725601	Transport & leisure	0.69888	3	0.507364	
	Utilities	-0.781426	6	0.066441	Utilities	-0.502525	6	0.309664	
Test Stat		13.5611				11.98389			
p-value		0.258237				0.286136			
2007-08 FD					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.551905	4	0.448095	Chemicals & pharmaceuticals	-0.872098	4	0.127902	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.591742	4	0.408258	Engineering & other manufacture	-0.127725	4	0.872276	
	Finance	-0.047017	8	0.911973	Food/drink & tobacco	0.793694	6	0.059453	
	Food/drink & tobacco	-0.222545	6	0.671693	Media/marketing & telecoms	0.347562	4	0.652438	
	Media/marketing & telecoms	-0.897741	5	0.038646	Oil/gas & minerals	-0.135804	5	0.827622	
	Oil/gas & minerals	-0.716969	5	0.172874	Other services		1	2	
	Other services	-1	2	NA	Property	-0.578667	4	0.421333	
	Property	-0.842983	4	0.157017	Retail & distribution	-0.380219	6	0.457155	
	Retail & distribution	0.084744	6	0.873188	Transport & leisure	-0.30406	4	0.69594	
	Transport & leisure	0.163866	4	0.836134	Utilities	0.115578	5	0.85317	
	Utilities	-0.438669	5	0.459938					
Test Stat		7.147038				6.53567			
p-value		0.711495				0.685337			
2006-07 FD					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.699387	4	0.300613	Chemicals & pharmaceuticals	0.087885	4	0.912115	
	Construction & building materials	-1	2	NA	Construction & building materials		1	2	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	Engineering & other manufacture	NA	1	NA	
	Finance	0.157832	9	0.685067	Finance	NA	1	NA	
	Food/drink & tobacco	0.107452	7	0.818635	Food/drink & tobacco	0.129898	7	0.781334	
	Media/marketing & telecoms	-0.61087	5	0.273742	Media/marketing & telecoms	0.860994	3	0.339684	
	Oil/gas & minerals	-0.682778	3	0.521543	Oil/gas & minerals	-0.470139	3	0.688407	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	0.944561	3	0.212976	Property	-0.540494	3	0.636474	
	Retail & distribution	-0.117074	3	0.925297	Retail & distribution	-0.986008	3	0.106623	
	Transport & leisure	1	2	NA	Transport & leisure	-1	2	NA	
	Utilities	0.857567	5	0.063131	Utilities	0.776865	5	0.122204	
Test Stat		5.069994				1.198226			
p-value		0.75007				0.990968			
2005-06 FD					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.751502	4	0.248498	Chemicals & pharmaceuticals	0.467851	4	0.532149	
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.787703	4	0.212297	Engineering & other manufacture	0.524649	4	0.475351	
	Finance	0.538106	10	0.108601	Finance	NA	1	NA	
	Food/drink & tobacco	0.074363	8	0.861083	Food/drink & tobacco	-0.062632	8	0.882871	
	Media/marketing & telecoms	-0.293991	7	0.522191	Media/marketing & telecoms	-0.440042	5	0.458368	
	Oil/gas & minerals	0.367857	5	0.542419	Oil/gas & minerals	0.748568	5	0.145501	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	0.90902	3	0.273664	Property	-0.775367	3	0.43513	
	Retail & distribution	0.627473	5	0.257143	Retail & distribution	-0.430314	5	0.46952	
	Transport & leisure	-0.077758	3	0.950447	Transport & leisure	-0.849841	3	0.353396	
	Utilities	-0.213784	5	0.72989	Utilities	-0.633377	5	0.251307	
Test Stat		4.319828				4.455564			
p-value		0.931768				0.878958			
2004-05 FD					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.649271	3	0.550148	Chemicals & pharmaceuticals	-0.970742	3	0.154377	
	Construction & building materials	-1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	-1	2	NA	
	Finance	0.416253	9	0.26511	Finance	NA	1	NA	
	Food/drink & tobacco	0.218242	8	0.603604	Food/drink & tobacco	0.595093	8	0.119643	
	Media/marketing & telecoms	-0.267203	9	0.487014	Media/marketing & telecoms	0.071577	7	0.878799	
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA	
	Other services	0.918203	3	0.25928	Other services	-0.664926	3	0.536926	
	Property	-1	2	NA	Property	-1	2	NA	
	Retail & distribution	1	2	NA	Retail & distribution	1	2	NA	
	Transport & leisure	-0.810725	3	0.398147	Transport & leisure	0.917273	3	0.260772	
	Utilities	0.913042	4	0.086958	Utilities	0.077094	4	0.922906	
Test Stat		3.51444				0.938547			
p-value		0.833694				0.987835			

H3m: Pay-Performance relationships by Industry

2008-09 FD					Net Income Growth				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.371524	4	0.628476	Chemicals & pharmaceuticals	-0.782662	4	0.217338	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.47169	5	0.422505	Engineering & other manufacture	0.394834	5	0.510667	
	Finance	-0.016769	9	0.965847	Finance	0.181336	9	0.64056	
	Food/drink & tobacco	-0.39008	5	0.516235	Food/drink & tobacco	0.298897	5	0.625177	
	Media/marketing & telecoms	0.844421	5	0.071921	Media/marketing & telecoms	0.787091	5	0.114089	
	Oil/gas & minerals	-0.421093	7	0.346787	Oil/gas & minerals	-0.36818	7	0.416447	
	Other services	0.279256	4	0.720744	Other services	0.234029	4	0.765971	
	Property	0.982442	3	0.119472	Property	0.669257	3	0.533225	
	Retail & distribution	-0.111022	4	0.888978	Retail & distribution	0.766029	4	0.233971	
	Transport & leisure	0.616438	3	0.57715	Transport & leisure	0.944181	3	0.213712	
	Utilities	-0.327746	6	0.525984	Utilities	-0.806322	6	0.052634	
Test Stat		5.319243				9.525122			
p-value		0.914726				0.573539			
2007-08 FD					Net Income Growth				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.980369	4	0.019631	Chemicals & pharmaceuticals	0.842596	3	0.362052	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.794245	4	0.205755	Engineering & other manufacture	0.137922	4	0.862078	
	Finance	0.044346	8	0.916961	Finance	-0.270755	7	0.557013	
	Food/drink & tobacco	0.485352	6	0.329138	Food/drink & tobacco	-0.05751	6	0.91383	
	Media/marketing & telecoms	0.666085	4	0.333915	Media/marketing & telecoms	0.780172	5	0.119562	
	Oil/gas & minerals	-0.184689	5	0.76619	Oil/gas & minerals	-0.739836	5	0.152927	
	Other services	1	2	NA	Other services	-1	2	NA	
	Property	-0.510678	4	0.489322	Property	-0.495028	4	0.504972	
	Retail & distribution	-0.09816	6	0.853233	Retail & distribution	0.434434	6	0.389345	
	Transport & leisure	-0.504644	4	0.495356	Transport & leisure	0.300549	4	0.699451	
	Utilities	0.298677	5	0.625445	Utilities	-0.413065	5	0.489434	
Test Stat		7.74003				5.7333221		0.8371486	
p-value		0.654214				0.837149			
2006-07 FD					Net Income Growth				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.579042	4	0.420958	Chemicals & pharmaceuticals	0.924663	4	0.075337	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	Engineering & other manufacture	NA	1	NA	
	Finance	0.493942	9	0.176544	Finance	0.020942	9	0.957353	
	Food/drink & tobacco	-0.542509	7	0.208326	Food/drink & tobacco	-0.431642	7	0.333533	
	Media/marketing & telecoms	0.411151	4	0.58849	Media/marketing & telecoms	-0.094674	4	0.905326	
	Oil/gas & minerals	0.81182	3	0.396954	Oil/gas & minerals	0.807482	3	0.401659	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	-0.597033	3	0.592692	Property	-0.92053	3	0.255514	
	Retail & distribution	0.951349	3	0.199397	Retail & distribution	0.408501	3	0.732104	
	Transport & leisure	-1	2	NA	Transport & leisure	-1	2	NA	
	Utilities	-0.368368	5	0.541813	Utilities	0.128773	5	0.836495	
Test Stat		4.159789				3.523626			
p-value		0.842427				0.897348			
2005-06 FD					Net Income Growth				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.290016	4	0.709984	Chemicals & pharmaceuticals	0.320978	4	0.679022	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.294725	4	0.705275	Engineering & other manufacture	-0.099325	4	0.900675	
	Finance	0.486864	10	0.153556	Finance	0.392768	10	0.261545	
	Food/drink & tobacco	0.700011	8	0.053218	Food/drink & tobacco	0.17194	8	0.683911	
	Media/marketing & telecoms	-0.140271	6	0.790974	Media/marketing & telecoms	0.384567	5	0.522706	
	Oil/gas & minerals	0.315758	5	0.604749	Oil/gas & minerals	0.402681	5	0.501505	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	-0.301335	3	0.805136	Property	-0.945964	3	0.210239	
	Retail & distribution	-0.896794	5	0.039179	Retail & distribution	0.051728	5	0.934167	
	Transport & leisure	-0.929576	3	0.240347	Transport & leisure	-0.497972	3	0.668157	
	Utilities	0.436687	5	0.462207	Utilities	0.671087	5	0.214918	
Test Stat		9.141436				1.007558			
p-value		0.518736				0.999822			
2004-05 FD					Net Income Growth				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.99483	3	0.064763	Chemicals & pharmaceuticals	0.641065	3	0.556986	
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-1	2	NA	Engineering & other manufacture	1	2	NA	
	Finance	-0.097561	9	0.802819	Finance	0.017322	9	0.964721	
	Food/drink & tobacco	-0.406063	8	0.318185	Food/drink & tobacco	-0.223776	8	0.594217	
	Media/marketing & telecoms	0.286708	8	0.491155	Media/marketing & telecoms	0.097705	7	0.834921	
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA	
	Other services	0.967896	3	0.16175	Other services	0.749819	3	0.460281	
	Property	1	2	NA	Property	1	2	NA	
	Retail & distribution	1	2	NA	Retail & distribution	-1	2	NA	
	Transport & leisure	0.904714	3	0.280169	Transport & leisure	0.854177	3	0.348123	
	Utilities	-0.290783	4	0.709217	Utilities	0.08982	4	0.91018	
Test Stat		1.366206				0.288365			
p-value		0.986584				0.999913			

H3m: Pay-Performance relationships by Industry

2008-09 FD					ROE				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.723835	4	0.276165	Chemicals & pharmaceuticals	0.55031	4	0.44969	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.879814	5	0.049105	Engineering & other manufacture	0.742228	5	0.150883	
	Finance	0.514561	9	0.156371	Finance	0.894291	9	0.001139	
	Food/drink & tobacco	-0.259293	5	0.673596	Food/drink & tobacco	-0.737405	5	0.155013	
	Media/marketing & telecoms	0.368368	5	0.541813	Media/marketing & telecoms	-0.663135	5	0.22246	
	Oil/gas & minerals	0.016304	7	0.972325	Oil/gas & minerals	0.098638	7	0.83336	
	Other services	-0.431157	4	0.568843	Other services	-0.90268	4	0.09732	
	Property	-0.852906	3	0.349677	Property	-0.868602	3	0.330038	
	Retail & distribution	-0.554637	4	0.445363	Retail & distribution	0.50272	3	0.664666	
	Transport & leisure	0.055793	3	0.964462	Transport & leisure	0.729067	3	0.479908	
	Utilities	-0.151254	6	0.77485	Utilities	0.051988	6	0.922088	
Test Stat		6.123416				17.83809			
p-value		0.865004				0.085414			
2007-08 FD					ROE				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.591593	4	0.408407	Chemicals & pharmaceuticals	-0.745058	4	0.254942	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.941931	4	0.058069	Engineering & other manufacture	0.165339	4	0.834661	
	Finance	-0.12296	8	0.771763	Finance	-0.45191	8	0.260964	
	Food/drink & tobacco	-0.260581	6	0.617976	Food/drink & tobacco	0.294997	6	0.570341	
	Media/marketing & telecoms	-0.000902	5	0.998851	Media/marketing & telecoms	0.422662	5	0.478332	
	Oil/gas & minerals	0.630565	5	0.254082	Oil/gas & minerals	0.634743	5	0.249962	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	-0.49405	4	0.50595	Property	0.797035	4	0.202965	
	Retail & distribution	0.278123	6	0.593572	Retail & distribution	0.048364	6	0.92751	
	Transport & leisure	-0.188467	4	0.811533	Transport & leisure	-0.967141	4	0.032859	
	Utilities	0.619428	5	0.265151	Utilities	0.23019	5	0.709523	
Test Stat		5.767214				9.435143			
p-value		0.834427				0.491364			
2006-07 FD					ROE				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.858344	4	0.141656	Chemicals & pharmaceuticals	-0.101558	4	0.898443	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	Engineering & other manufacture	NA	1	NA	
	Finance	-0.344597	9	0.363801	Finance	0.040608	8	0.923944	
	Food/drink & tobacco	0.453172	7	0.307171	Food/drink & tobacco	0.168319	7	0.718284	
	Media/marketing & telecoms	-0.122371	5	0.844582	Media/marketing & telecoms	0.125241	4	0.874759	
	Oil/gas & minerals	0.813787	3	0.394805	Oil/gas & minerals	-0.999077	3	0.027349	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	0.341776	3	0.777943	Property	-0.29747	3	0.807714	
	Retail & distribution	-0.056936	3	0.963734	Retail & distribution	-0.940274	3	0.221138	
	Transport & leisure	1	2	NA	Transport & leisure	1	2	NA	
	Utilities	-0.232572	5	0.706571	Utilities	0.162299	5	0.794265	
Test Stat		3.519811				0.086423			
p-value		0.897647				1			
2005-06 FD					ROE				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.363627	4	0.636373	Chemicals & pharmaceuticals	0.037474	4	0.962526	
	Construction & building materials	-1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.437695	4	0.562305	Engineering & other manufacture	0.484514	4	0.515486	
	Finance	0.805725	10	0.004894	Finance	-0.02366	10	0.948273	
	Food/drink & tobacco	0.086588	8	0.838457	Food/drink & tobacco	-0.339348	7	0.456495	
	Media/marketing & telecoms	-0.110643	7	0.813315	Media/marketing & telecoms	0.455186	6	0.364377	
	Oil/gas & minerals	0.046372	5	0.940978	Oil/gas & minerals	0.199164	5	0.748103	
	Other services	NA	1	NA	Other services	NA	1	NA	
	Property	-0.413685	3	0.728483	Property	0.576464	3	0.608864	
	Retail & distribution	0.213455	4	0.786545	Retail & distribution	-0.006564	5	0.991642	
	Transport & leisure	0.592164	3	0.596547	Transport & leisure	0.913286	3	0.267073	
	Utilities	0.362083	5	0.549263	Utilities	-0.86983	5	0.055263	
Test Stat		6.699938				4.990987			
p-value		0.753436				0.891779			
2004-05 FD					ROE				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.322529	3	0.790934	Chemicals & pharmaceuticals	-0.926565	3	0.245494	
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	1	2	NA	Engineering & other manufacture	-1	2	NA	
	Finance	0.477183	9	0.193975	Finance	0.331916	9	0.382867	
	Food/drink & tobacco	-0.012749	8	0.976098	Food/drink & tobacco	0.748366	7	0.052988	
	Media/marketing & telecoms	-0.416754	9	0.264476	Media/marketing & telecoms	0.360166	7	0.427437	
	Oil/gas & minerals	NA	1	NA	Oil/gas & minerals	NA	1	NA	
	Other services	0.937649	3	0.225995	Other services	-1	2	NA	
	Property	-1	2	NA	Property	-1	2	NA	
	Retail & distribution	1	2	NA	Retail & distribution	1	2	NA	
	Transport & leisure	0.975354	3	0.141633	Transport & leisure	0.970511	3	0.154988	
	Utilities	0.0017	4	0.9983	Utilities	0.75341	4	0.24659	
Test Stat		2.792051				1.258107			
p-value		0.90355				0.973917			

H3m: Pay-Performance relationships by Industry

2008-09 All		EPS Growth				EBITDA			
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.29945	5	0.624506	Chemicals & pharmaceuticals	0.936363	5	0.019086	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.262148	5	0.670086	Engineering & other manufacture	-0.059638	5	0.924112	
	Finance	0.227742	16	0.396269	Finance	0.628286	4	0.371714	
	Food/drink & tobacco	0.37414	7	0.408345	Food/drink & tobacco	-0.029655	7	0.949679	
	Media/marketing & telecoms	0.293255	7	0.523283	Media/marketing & telecoms	-0.577879	6	0.229671	
	Oil/gas & minerals	-0.006394	13	0.983461	Oil/gas & minerals	-0.19995	13	0.512498	
	Other services	0.77059	5	0.127266	Other services	0.241923	5	0.695005	
	Property	-0.39339	4	0.60661	Property	-0.171439	4	0.828561	
	Retail & distribution	0.486822	5	0.405596	Retail & distribution	-0.790763	5	0.112127	
	Transport & leisure	0.235269	3	0.848806	Transport & leisure	0.548241	3	0.630595	
	Utilities	0.459054	8	0.25255	Utilities	0.364954	8	0.374044	
Test Stat		3.39384				11.29159			
p-value		0.984431				0.419168			
2007-08 All		EPS Growth				EBITDA			
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.667376	5	0.218429	Chemicals & pharmaceuticals	-0.96549	5	0.007656	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.776373	4	0.223627	Engineering & other manufacture	0.374745	4	0.625255	
	Finance	-0.064596	18	0.798995	Finance	-0.177598	3	0.886335	
	Food/drink & tobacco	0.162333	7	0.728031	Food/drink & tobacco	-0.563676	7	0.187548	
	Media/marketing & telecoms	-0.796403	8	0.018008	Media/marketing & telecoms	0.273819	7	0.55238	
	Oil/gas & minerals	0.060047	10	0.86912	Oil/gas & minerals	-0.137792	10	0.704238	
	Other services	-0.254651	4	0.745349	Other services	-0.470388	4	0.529612	
	Property	-0.863842	4	0.136158	Property	-0.952885	4	0.047115	
	Retail & distribution	0.20393	6	0.698345	Retail & distribution	-0.501984	6	0.310271	
	Transport & leisure	-0.389752	4	0.610248	Transport & leisure	-0.298403	4	0.701597	
	Utilities	-0.393262	8	0.335131	Utilities	0.370313	8	0.366529	
Test Stat		9.941342				13.44125			
p-value		0.535671				0.265466			
2006-07 All		EPS Growth				EBITDA			
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.646159	7	0.116887	Chemicals & pharmaceuticals	-0.649782	7	0.114169	
	Construction & building materials	-0.333839	3	0.783311	Construction & building materials	-0.999831	3	0.011722	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.99771	3	0.043088	Engineering & other manufacture	-0.636709	3	0.560591	
	Finance	0.387615	17	0.124226	Finance	-1	2	NA	
	Food/drink & tobacco	0.325782	7	0.475812	Food/drink & tobacco	-0.10566	7	0.821625	
	Media/marketing & telecoms	-0.191951	8	0.648834	Media/marketing & telecoms	0.324931	6	0.529757	
	Oil/gas & minerals	0.660853	8	0.074399	Oil/gas & minerals	0.561673	8	0.147394	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	0.702383	4	0.297617	Property	0.216591	4	0.783409	
	Retail & distribution	0.14818	7	0.751195	Retail & distribution	0.382768	7	0.39673	
	Transport & leisure	0.826144	3	0.381106	Transport & leisure	-0.975292	3	0.141811	
	Utilities	-0.280074	7	0.542958	Utilities	-0.335776	7	0.461552	
Test Stat		8.379517				5.944633			
p-value		0.678958				0.819893			
2005-06 All		EPS Growth				EBITDA			
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.091526	7	0.845271	Chemicals & pharmaceuticals	0.311456	7	0.496524	
	Construction & building materials	-1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.736093	4	0.263907	Engineering & other manufacture	0.915056	4	0.084944	
	Finance	0.046124	15	0.870342	Finance	NA	1	NA	
	Food/drink & tobacco	-0.025929	9	0.947206	Food/drink & tobacco	-0.383643	9	0.308072	
	Media/marketing & telecoms	0.357102	8	0.38518	Media/marketing & telecoms	-0.491671	6	0.321922	
	Oil/gas & minerals	-0.190849	7	0.681872	Oil/gas & minerals	0.70015	7	0.079824	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	0.267241	4	0.732759	Property	-0.081654	4	0.918346	
	Retail & distribution	-0.398266	8	0.328458	Retail & distribution	-0.828482	8	0.011047	
	Transport & leisure	0.367034	4	0.632966	Transport & leisure	0.845837	4	0.154163	
	Utilities	0.25594	7	0.579593	Utilities	-0.216655	7	0.640767	
Test Stat		3.049542				16.05524			
p-value		0.980234				0.065737			
2004-05 All		EPS Growth				EBITDA			
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.374322	4	0.625678	Chemicals & pharmaceuticals	0.922632	4	0.077368	
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.260546	4	0.739454	Engineering & other manufacture	0.07259	4	0.92741	
	Finance	-0.041102	15	0.884366	Finance	NA	1	NA	
	Food/drink & tobacco	-0.5092	9	0.161481	Food/drink & tobacco	-0.109644	9	0.778861	
	Media/marketing & telecoms	-0.140723	10	0.698192	Media/marketing & telecoms	0.116984	8	0.782648	
	Oil/gas & minerals	0.641761	4	0.358239	Oil/gas & minerals	0.927912	4	0.072088	
	Other services	0.350895	5	0.562572	Other services	0.639673	5	0.245124	
	Property	-0.950939	3	0.200243	Property	0.298891	3	0.806766	
	Retail & distribution	0.634559	6	0.175919	Retail & distribution	-0.141273	6	0.7895	
	Transport & leisure	-0.711253	3	0.496256	Transport & leisure	-0.588967	4	0.411033	
	Utilities	-0.317688	5	0.602418	Utilities	-0.585053	5	0.300087	
Test Stat		4.857971				7.746487			
p-value		0.937849				0.653584			

H3m: Pay-Performance relationships by Industry

2008-09 All Tcash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.520058	5	0.369036	Chemicals & pharmaceuticals	-0.611607	5	0.272999
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-0.288207	5	0.638188	Engineering & other manufacture	-0.138953	5	0.823651
	Finance	-0.114256	16	0.673511	Finance	0.032659	16	0.904428
	Food/drink & tobacco	0.495302	7	0.258375	Food/drink & tobacco	0.393093	7	0.383006
	Media/marketing & telecoms	-0.106123	7	0.820853	Media/marketing & telecoms	-0.197908	7	0.670562
	Oil/gas & minerals	-0.142303	13	0.642823	Oil/gas & minerals	0.046134	13	0.881036
	Other services	-0.375462	5	0.533429	Other services	-0.314305	5	0.605055
	Property	0.934234	4	0.065766	Property	0.607984	4	0.392016
	Retail & distribution	0.923484	5	0.025114	Retail & distribution	0.880566	5	0.048651
	Transport & leisure	0.453493	3	0.700356	Transport & leisure	0.86319	3	0.336926
	Utilities	0.00943	8	0.98232	Utilities	0.092743	8	0.827102
Test Stat		10.53021				6.245353		
p-value		0.483417				0.856502		
2007-08 All Tcash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.684554	5	0.202311	Chemicals & pharmaceuticals	0.892041	4	0.107959
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-0.475691	4	0.524309	Engineering & other manufacture	0.023819	4	0.976181
	Finance	0.404963	18	0.095499	Finance	-0.41	17	0.102153
	Food/drink & tobacco	0.030423	7	0.948376	Food/drink & tobacco	0.238953	7	0.605821
	Media/marketing & telecoms	0.52377	7	0.22759	Media/marketing & telecoms	0.23611	8	0.573471
	Oil/gas & minerals	-0.304725	10	0.39194	Oil/gas & minerals	0.042356	10	0.907513
	Other services	0.405092	4	0.594908	Other services	-0.47112	4	0.52888
	Property	-0.660776	4	0.339224	Property	0.022796	4	0.977204
	Retail & distribution	0.06879	6	0.896978	Retail & distribution	0.369457	6	0.471103
	Transport & leisure	0.027065	4	0.972935	Transport & leisure	-0.236305	4	0.763695
	Utilities	0.247545	8	0.554465	Utilities	-0.289459	7	0.528924
Test Stat		5.806024				6.169509		
p-value		0.885988				0.861818		
2006-07 All Tcash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	0.182042	7	0.696051	Chemicals & pharmaceuticals	0.084727	7	0.856679
	Construction & building materials	-0.388165	3	0.746218	Construction & building materials	0.069113	3	0.955966
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	0.082037	3	0.947715	Engineering & other manufacture	0.377336	3	0.75368
	Finance	-0.352308	17	0.16547	Finance	-0.331491	17	0.193673
	Food/drink & tobacco	-0.619278	7	0.138077	Food/drink & tobacco	-0.339263	7	0.456615
	Media/marketing & telecoms	0.528795	7	0.222345	Media/marketing & telecoms	0.124276	7	0.790648
	Oil/gas & minerals	0.464901	8	0.245767	Oil/gas & minerals	0.664365	8	0.072327
	Other services	-1	2	NA	Other services	-1	2	NA
	Property	0.574903	4	0.425097	Property	0.388217	4	0.611783
	Retail & distribution	0.022224	7	0.96228	Retail & distribution	-0.113011	7	0.809369
	Transport & leisure	-0.607726	3	0.584164	Transport & leisure	-0.353245	3	0.770157
	Utilities	0.598159	7	0.155981	Utilities	0.64143	7	0.120483
Test Stat		9.089367				7.92577		
p-value		0.613644				0.719937		
2005-06 All Tcash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	-0.292499	7	0.524405	Chemicals & pharmaceuticals	0.442515	7	0.320103
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	-0.986953	4	0.013047	Engineering & other manufacture	-0.660399	4	0.339601
	Finance	0.156541	15	0.577434	Finance	0.08035	15	0.775907
	Food/drink & tobacco	0.220151	9	0.569234	Food/drink & tobacco	0.41576	9	0.265734
	Media/marketing & telecoms	-0.337169	7	0.459578	Media/marketing & telecoms	0.475051	6	0.341027
	Oil/gas & minerals	0.248188	7	0.591518	Oil/gas & minerals	-0.03926	7	0.933401
	Other services	1	2	NA	Other services	1	2	NA
	Property	-0.804195	4	0.195805	Property	0.610347	4	0.389653
	Retail & distribution	-0.551648	8	0.156347	Retail & distribution	0.168065	8	0.690762
	Transport & leisure	-0.209131	4	0.790869	Transport & leisure	0.78537	4	0.21463
	Utilities	0.491916	7	0.262156	Utilities	0.498321	7	0.255025
Test Stat		12.1565				3.647162		
p-value		0.274719				0.961864		
2004-05 All Tcash	Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value
	Chemicals & pharmaceuticals	-0.91824	4	0.08176	Chemicals & pharmaceuticals	-0.827013	4	0.172987
	Construction & building materials	NA	1	NA	Construction & building materials	1	2	NA
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA
	Engineering & other manufacture	0.807804	4	0.192196	Engineering & other manufacture	0.16538	4	0.83462
	Finance	-0.081056	15	0.773984	Finance	-0.30548	15	0.268202
	Food/drink & tobacco	0.308069	9	0.419947	Food/drink & tobacco	0.096084	9	0.805759
	Media/marketing & telecoms	0.437933	9	0.238416	Media/marketing & telecoms	0.671471	8	0.068239
	Oil/gas & minerals	0.817964	4	0.182036	Oil/gas & minerals	0.894263	4	0.105737
	Other services	0.027742	5	0.964682	Other services	-0.074188	5	0.905628
	Property	0.267453	3	0.827636	Property	-0.709652	3	0.497704
	Retail & distribution	0.314764	6	0.543446	Retail & distribution	0.290976	6	0.575854
	Transport & leisure	-0.931225	4	0.068775	Transport & leisure	-0.946594	4	0.053406
	Utilities	0.795646	5	0.10743	Utilities	0.487161	5	0.405219
Test Stat		11.51847				12.08709		
p-value		0.400903				0.357133		

H3m: Pay-Performance relationships by Industry

2008-09 All					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
		Chemicals & pharmaceuticals	0.630823	5	0.253827	Chemicals & pharmaceuticals	0.599478	5	0.285289
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.109866	5	0.860396	Engineering & other manufacture	0.452909	5	0.443709	
	Finance	0.330546	16	0.211136	Finance	0.005335	16	0.984357	
	Food/drink & tobacco	-0.032323	7	0.945156	Food/drink & tobacco	-0.011693	7	0.980151	
	Media/marketing & telecoms	0.655813	7	0.109718	Media/marketing & telecoms	-0.728553	6	0.100525	
	Oil/gas & minerals	0.585253	13	0.035617	Oil/gas & minerals	0.173043	13	0.57184	
	Other services	-0.67926	5	0.207242	Other services	0.105305	5	0.86617	
	Property	-0.652869	4	0.347131	Property	-0.633076	4	0.366924	
	Retail & distribution	0.34407	5	0.570721	Retail & distribution	-0.384433	4	0.615567	
	Transport & leisure	-0.137273	3	0.912332	Transport & leisure	0.58383	3	0.603107	
	Utilities	0.430098	8	0.287499	Utilities	0.292658	8	0.481793	
Test Stat		7.213297				5.4249			
p-value		0.781557				0.908858			
2007-08 All					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.957485	5	0.010456	Chemicals & pharmaceuticals	-0.221177	5	0.720701	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.941746	4	0.058254	Engineering & other manufacture	-0.005071	4	0.994929	
	Finance	0.558281	18	0.016044	Finance	0.435504	18	0.070848	
	Food/drink & tobacco	-0.367189	7	0.4178	Food/drink & tobacco	-0.208373	7	0.653884	
	Media/marketing & telecoms	-0.307924	8	0.4581	Media/marketing & telecoms	0.65086	6	0.161568	
	Oil/gas & minerals	0.011292	10	0.975301	Oil/gas & minerals	0.290343	9	0.448508	
	Other services	-0.925441	4	0.074559	Other services	-0.111765	4	0.888235	
	Property	0.081836	4	0.918164	Property	0.597176	4	0.402824	
	Retail & distribution	0.491323	6	0.322317	Retail & distribution	-0.092592	6	0.861509	
	Transport & leisure	-0.674177	4	0.325823	Transport & leisure	-0.745229	4	0.254771	
	Utilities	-0.159283	8	0.706358	Utilities	-0.066157	8	0.876317	
Test Stat		20.16507				5.498152			
p-value		0.043128				0.904668			
2006-07 All					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.4436	7	0.318776	Chemicals & pharmaceuticals	-0.752248	6	0.084468	
	Construction & building materials	-0.999796	3	0.012847	Construction & building materials	0.470656	3	0.688034	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.570862	3	0.613218	Engineering & other manufacture	0.706834	3	0.500245	
	Finance	0.26626	17	0.301606	Finance	0.061304	16	0.821563	
	Food/drink & tobacco	0.679392	7	0.093199	Food/drink & tobacco	-0.039663	7	0.93272	
	Media/marketing & telecoms	-0.687062	8	0.059759	Media/marketing & telecoms	-0.498316	7	0.25503	
	Oil/gas & minerals	0.717227	8	0.045217	Oil/gas & minerals	-0.180758	8	0.668389	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	0.142781	4	0.857219	Property	0.612191	4	0.387809	
	Retail & distribution	0.265817	7	0.564508	Retail & distribution	0.18678	7	0.688415	
	Transport & leisure	0.678927	3	0.52489	Transport & leisure	0.315424	3	0.795707	
	Utilities	-0.096915	7	0.836243	Utilities	0.029498	7	0.949945	
Test Stat		10.13584				4.561276			
p-value		0.518212				0.950542			
2005-06 All					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.359164	7	0.428819	Chemicals & pharmaceuticals	0.397259	6	0.435458	
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.94749	4	0.05251	Engineering & other manufacture	0.946051	4	0.053949	
	Finance	-0.131454	15	0.640509	Finance	0.331633	15	0.227229	
	Food/drink & tobacco	0.010829	9	0.977941	Food/drink & tobacco	-0.251197	8	0.548444	
	Media/marketing & telecoms	-0.170479	8	0.686491	Media/marketing & telecoms	0.406022	7	0.366097	
	Oil/gas & minerals	0.721842	7	0.067019	Oil/gas & minerals	0.644172	7	0.118391	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	0.975636	4	0.024364	Property	0.653989	4	0.346011	
	Retail & distribution	0.291106	7	0.526474	Retail & distribution	-0.823545	8	0.011982	
	Transport & leisure	-0.959621	4	0.040379	Transport & leisure	0.086396	4	0.913604	
	Utilities	0.517536	7	0.234176	Utilities	0.360786	7	0.426582	
Test Stat		17.25404				15.28488			
p-value		0.068928				0.122016			
2004-05 All					ROE				
Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.189439	4	0.810561	Chemicals & pharmaceuticals	0.890997	4	0.109003	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.636872	4	0.363129	Engineering & other manufacture	-0.843907	4	0.156093	
	Finance	0.606497	15	0.016527	Finance	-0.376838	15	0.166189	
	Food/drink & tobacco	-0.217247	9	0.574466	Food/drink & tobacco	0.240092	8	0.566828	
	Media/marketing & telecoms	0.278412	10	0.430620	Media/marketing & telecoms	-0.223162	7	0.630511	
	Oil/gas & minerals	-0.415186	4	0.584814	Oil/gas & minerals	0.914483	4	0.085517	
	Other services	0.514457	5	0.375139	Other services	0.587396	4	0.412604	
	Property	-0.932658	3	0.234967	Property	0.152677	3	0.902421	
	Retail & distribution	0.592991	6	0.214773	Retail & distribution	0.397625	6	0.434996	
	Transport & leisure	-0.909394	4	0.090606	Transport & leisure	0.337739	4	0.662261	
	Utilities	-0.25334	5	0.680922	Utilities	-0.574034	5	0.311521	
Test Stat		9.108133				10.23492			
p-value		0.611912				0.509388			

H3m: Pay-Performance relationships by Industry

2008-09 All					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.23376	5	0.705101	Chemicals & pharmaceuticals	0.935301	5	0.019562	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.094628	5	0.879696	Engineering & other manufacture	0.503178	5	0.387502	
	Finance	0.236433	16	0.377986	Finance	0.542179	4	0.457821	
	Food/drink & tobacco	0.706911	7	0.075704	Food/drink & tobacco	-0.037245	7	0.936814	
	Media/marketing & telecoms	0.344836	7	0.448764	Media/marketing & telecoms	-0.420047	6	0.406985	
	Oil/gas & minerals	-0.163656	13	0.593177	Oil/gas & minerals	-0.030623	13	0.920892	
	Other services	0.17281	5	0.781071	Other services	-0.982269	5	0.002827	
	Property	-0.456736	4	0.543264	Property	-0.259629	4	0.740371	
	Retail & distribution	-0.637688	5	0.247069	Retail & distribution	0.092872	5	0.881922	
	Transport & leisure	-0.636595	3	0.560684	Transport & leisure	-0.340332	3	0.778921	
	Utilities	-0.743988	8	0.034307	Utilities	-0.454923	8	0.257399	
Test Stat		10.82291				19.30412			
p-value		0.458217				0.055848			
2007-08 All					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.78294	5	0.117363	Chemicals & pharmaceuticals	-0.925948	5	0.02392	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.127829	4	0.872171	Engineering & other manufacture	0.342954	4	0.87921	
	Finance	-0.053952	18	0.831623	Finance	-0.1886	3	0.420001	
	Food/drink & tobacco	0.083846	7	0.858158	Food/drink & tobacco	-0.365579	7	0.668855	
	Media/marketing & telecoms	-0.617583	8	0.102781	Media/marketing & telecoms	-0.198976	7	0.787925	
	Oil/gas & minerals	-0.309007	10	0.384978	Oil/gas & minerals	0.200344	10	0.578919	
	Other services	0.177683	4	0.822317	Other services	-0.106199	4	0.893801	
	Property	-0.615592	4	0.384408	Property	-0.253704	4	0.746296	
	Retail & distribution	0.157276	6	0.766032	Retail & distribution	-0.413655	6	0.414907	
	Transport & leisure	-0.672064	4	0.327936	Transport & leisure	-0.206953	4	0.793047	
	Utilities	-0.348045	8	0.398201	Utilities	0.509361	8	1.802718	
Test Stat		6.467442				8.466306			
p-value		0.840428				0.671024			
2006-07 All					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.253934	7	0.582672	Chemicals & pharmaceuticals	-0.279224	7	0.544235	
	Construction & building materials	0.695904	3	0.510007	Construction & building materials	0.901442	3	0.28502	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.185125	3	0.881462	Engineering & other manufacture	-0.690407	3	0.514863	
	Finance	0.248522	17	0.336131	Finance	-1	2	NA	
	Food/drink & tobacco	-0.072689	7	0.876924	Food/drink & tobacco	-0.146804	7	0.753454	
	Media/marketing & telecoms	-0.390991	8	0.33818	Media/marketing & telecoms	0.705299	6	0.117476	
	Oil/gas & minerals	0.440448	8	0.274749	Oil/gas & minerals	-0.002672	8	0.99499	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	-0.460026	4	0.539974	Property	-0.919447	4	0.080553	
	Retail & distribution	0.026255	7	0.955444	Retail & distribution	-0.504853	7	0.247845	
	Transport & leisure	0.997163	3	0.047963	Transport & leisure	-0.955201	3	0.191278	
	Utilities	0.534028	7	0.216944	Utilities	0.256031	7	0.579453	
Test Stat		4.336129				6.61017			
p-value		0.959034				0.761663			
2005-06 All					EBITDA				
TComp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.337624	7	0.458932	Chemicals & pharmaceuticals	0.149549	7	0.748947	
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.473837	4	0.526163	Engineering & other manufacture	0.119671	4	0.880329	
	Finance	0.170896	15	0.542547	Finance	NA	1	NA	
	Food/drink & tobacco	0.088077	9	0.821726	Food/drink & tobacco	-0.050966	9	0.896397	
	Media/marketing & telecoms	-0.078772	8	0.852913	Media/marketing & telecoms	-0.656444	6	0.156771	
	Oil/gas & minerals	0.041098	7	0.930288	Oil/gas & minerals	0.003947	7	0.9933	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	0.265651	4	0.734349	Property	-0.200971	4	0.799029	
	Retail & distribution	-0.76275	8	0.027727	Retail & distribution	-0.311674	8	0.452354	
	Transport & leisure	0.53022	4	0.46978	Transport & leisure	0.205435	4	0.794565	
	Utilities	0.449736	7	0.311315	Utilities	-0.077812	7	0.868303	
Test Stat		7.577619				2.095749			
p-value		0.670018				0.989861			
2004-05 All					EBITDA				
Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.752721	4	0.247279	Chemicals & pharmaceuticals	0.034291	4	0.965709	
	Construction & building materials	-1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.051604	4	0.948396	Engineering & other manufacture	0.747266	4	0.252734	
	Finance	0.310638	15	0.259791	Finance	NA	1	NA	
	Food/drink & tobacco	-0.481265	9	0.189644	Food/drink & tobacco	0.10609	9	0.785891	
	Media/marketing & telecoms	-0.210226	10	0.559921	Media/marketing & telecoms	0.170899	8	0.685749	
	Oil/gas & minerals	0.572448	4	0.427552	Oil/gas & minerals	0.841046	4	0.158954	
	Other services	0.740588	5	0.152284	Other services	0.52967	5	0.358619	
	Property	0.65133	3	0.548422	Property	0.241001	3	0.845049	
	Retail & distribution	0.67495	6	0.141315	Retail & distribution	-0.400413	6	0.43148	
	Transport & leisure	-0.623735	3	0.571229	Transport & leisure	-0.875449	4	0.124551	
	Utilities	-0.419946	5	0.481469	Utilities	-0.568467	5	0.317339	
Test Stat		8.278885				6.514771			
p-value		0.688125				0.770321			

H3m: Pay-Performance relationships by Industry

2008-09 All Tcomp Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.518236	5	0.371018	Chemicals & pharmaceuticals	-0.553922	5	0.332666		
Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	0.561354	5	0.324811	Engineering & other manufacture	0.490393	5	0.401629		
Finance	-0.261026	16	0.328827	Finance	-0.025912	16	0.924113		
Food/drink & tobacco	0.30374	7	0.507808	Food/drink & tobacco	0.210766	7	0.650087		
Media/marketing & telecoms	0.524879	7	0.226427	Media/marketing & telecoms	0.392319	7	0.384028		
Oil/gas & minerals	-0.22607	13	0.457679	Oil/gas & minerals	-0.576734	13	0.039072		
Other services	0.103231	5	0.868796	Other services	0.0846	5	0.892413		
Property	0.964518	4	0.035482	Property	0.680482	4	0.319518		
Retail & distribution	-0.2139	5	0.729746	Retail & distribution	0.212837	5	0.731067		
Transport & leisure	-0.44116	3	0.709134	Transport & leisure	0.113751	3	0.927427		
Utilities	-0.315956	8	0.445828	Utilities	-0.669197	8	0.069532		
Test Stat	9.351319				9.481006				
p-value	0.589499				0.577584				
2007-08 All Tcomp Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.85213	5	0.066723	Chemicals & pharmaceuticals	0.905306	4	0.094694		
Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	0.896549	4	0.103451	Engineering & other manufacture	0.214218	4	0.785782		
Finance	0.24084	18	0.33569	Finance	-0.45231	17	0.068315		
Food/drink & tobacco	0.172105	7	0.712133	Food/drink & tobacco	0.326119	7	0.475328		
Media/marketing & telecoms	0.382324	7	0.397324	Media/marketing & telecoms	0.080358	8	0.849976		
Oil/gas & minerals	0.14073	10	0.698178	Oil/gas & minerals	-0.247517	10	0.490526		
Other services	0.826164	4	0.173836	Other services	-0.402654	4	0.597346		
Property	-0.416511	4	0.583489	Property	-0.6393	4	0.3607		
Retail & distribution	-0.079302	6	0.881296	Retail & distribution	0.435746	6	0.38775		
Transport & leisure	0.343969	4	0.656031	Transport & leisure	-0.519896	4	0.480104		
Utilities	0.448762	8	0.264715	Utilities	-0.324579	7	0.477539		
Test Stat	5.415173				7.651795				
p-value	0.909407				0.744114				
2006-07 All Tcomp Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	-0.481083	7	0.27442	Chemicals & pharmaceuticals	-0.256323	7	0.579006		
Construction & building materials	-0.030661	3	0.980478	Construction & building materials	-0.478083	3	0.682664		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	0.979938	3	0.127735	Engineering & other manufacture	0.874967	3	0.321767		
Finance	0.081237	17	0.756599	Finance	-0.393275	17	0.118356		
Food/drink & tobacco	-0.283265	7	0.538173	Food/drink & tobacco	-0.534998	7	0.21595		
Media/marketing & telecoms	0.120889	7	0.796269	Media/marketing & telecoms	0.621844	7	0.135977		
Oil/gas & minerals	-0.369584	8	0.367547	Oil/gas & minerals	0.062778	8	0.882601		
Other services	-1	2	NA	Other services	-1	2	NA		
Property	-0.693533	4	0.306467	Property	-0.921855	4	0.078145		
Retail & distribution	0.212039	7	0.648069	Retail & distribution	0.198723	7	0.669259		
Transport & leisure	-0.923237	3	0.251067	Transport & leisure	0.161518	3	0.896722		
Utilities	0.64397	7	0.118545	Utilities	0.47377	7	0.282843		
Test Stat	5.593467				9.478684				
p-value	0.899067				0.577797				
2005-06 All Tcomp Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	-0.222502	7	0.631549	Chemicals & pharmaceuticals	-0.15874	7	0.733896		
Construction & building materials	1	2	NA	Construction & building materials	1	2	NA		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	0.190224	4	0.809776	Engineering & other manufacture	0.207169	4	0.792831		
Finance	0.337266	15	0.21895	Finance	-0.041351	15	0.88367		
Food/drink & tobacco	0.650265	9	0.057936	Food/drink & tobacco	0.361163	9	0.339599		
Media/marketing & telecoms	0.242215	7	0.600759	Media/marketing & telecoms	0.582046	6	0.225523		
Oil/gas & minerals	0.265944	7	0.564314	Oil/gas & minerals	0.031798	7	0.946045		
Other services	-1	2	NA	Other services	-1	2	NA		
Property	-0.91909	4	0.08091	Property	0.076178	4	0.923822		
Retail & distribution	-0.571342	8	0.139033	Retail & distribution	0.270472	8	0.517054		
Transport & leisure	-0.860747	4	0.139253	Transport & leisure	0.556244	4	0.443756		
Utilities	0.686344	7	0.088598	Utilities	0.568608	7	0.182858		
Test Stat	13.66903				3.193399				
p-value	0.188631				0.976499				
2004-05 All Tcomp Sales Growth					Net Income Growth				
Industry	cor	n	p-value	Industry	cor	n	p-value		
Chemicals & pharmaceuticals	0.044322	4	0.955678	Chemicals & pharmaceuticals	-0.679553	4	0.320447		
Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA		
E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA		
Engineering & other manufacture	-0.825218	4	0.174782	Engineering & other manufacture	-0.178051	4	0.821949		
Finance	-0.07	15	0.804218	Finance	0.250314	15	0.368224		
Food/drink & tobacco	0.086589	9	0.824701	Food/drink & tobacco	0.023997	9	0.951137		
Media/marketing & telecoms	0.616232	9	0.077197	Media/marketing & telecoms	0.73213	8	0.038916		
Oil/gas & minerals	0.804286	4	0.195714	Oil/gas & minerals	0.846159	4	0.153841		
Other services	0.375409	5	0.533492	Other services	0.538726	5	0.348872		
Property	-0.729553	3	0.479456	Property	0.239717	3	0.845891		
Retail & distribution	-0.137501	6	0.795048	Retail & distribution	-0.045275	6	0.932134		
Transport & leisure	-0.929167	4	0.070833	Transport & leisure	-0.687787	4	0.312213		
Utilities	0.055452	5	0.929433	Utilities	-0.576451	5	0.309003		
Test Stat	8.696327				8.261865				
p-value	0.6499				0.689672				

H3m: Pay-Performance relationships by Industry

2008-09 All					2007-08 All					2006-07 All					2005-06 All					2004-05 All									
Tcomp	TSR				Industry	ROE				Tcomp	TSR				Industry	ROE				Tcomp	TSR				Industry	ROE			
	cor	n	p-value			cor	n	p-value			cor	n	p-value			cor	n	p-value			cor	n	p-value			cor	n	p-value	
	Chemicals & pharmaceuticals	0.653467	5	0.231727	Chemicals & pharmaceuticals	0.674756	5	0.211462	Chemicals & pharmaceuticals	0.75366	7	0.0504	Chemicals & pharmaceuticals	0.652003	7	0.112519	Chemicals & pharmaceuticals	0.528337	6	0.281235	Chemicals & pharmaceuticals	0.766085	4	0.233915	Chemicals & pharmaceuticals	0.253343	4	0.746657	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	Construction & building materials	0.900671	3	0.28615	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.867285	5	0.056869	Engineering & other manufacture	0.291292	4	0.708708	Engineering & other manufacture	0.747789	3	0.462231	Engineering & other manufacture	-0.003191	4	0.996809	Engineering & other manufacture	0.03053	4	0.96947	Engineering & other manufacture	-0.865695	4	0.134305	Engineering & other manufacture	0.446319	4	0.553681	
	Finance	0.441935	16	0.086548	Finance	0.521228	18	0.026541	Finance	0.152042	17	0.560204	Finance	-0.138154	15	0.623415	Finance	0.077249	15	0.784364	Finance	0.146927	15	0.601301	Finance	0.337764	15	0.218228	
	Food/drink & tobacco	0.113746	7	0.808145	Food/drink & tobacco	-0.365159	7	0.420577	Food/drink & tobacco	0.184975	7	0.691322	Food/drink & tobacco	-0.009767	9	0.980104	Food/drink & tobacco	-0.269044	8	0.519357	Food/drink & tobacco	-0.33098	9	0.384293	Food/drink & tobacco	0.683621	8	0.061573	
	Media/marketing & telecoms	0.275959	7	0.549151	Media/marketing & telecoms	0.124291	8	0.769343	Media/marketing & telecoms	0.037744	8	0.929297	Media/marketing & telecoms	0.386727	8	0.343941	Media/marketing & telecoms	0.10408	7	0.824263	Media/marketing & telecoms	0.109262	10	0.763822	Media/marketing & telecoms	-0.12517	7	0.789166	
	Oil/gas & minerals	-0.171283	13	0.575818	Oil/gas & minerals	0.127422	10	0.725746	Oil/gas & minerals	-0.094931	8	0.823072	Oil/gas & minerals	0.100864	7	0.829638	Oil/gas & minerals	0.264878	8	0.526095	Oil/gas & minerals	-0.547293	4	0.452707	Oil/gas & minerals	0.765465	4	0.234535	
	Other services	-0.407794	5	0.495554	Other services	-0.948753	4	0.051248	Other services	-1	2	NA	Other services	-1	2	NA	Other services	-1	2	NA	Other services	0.789493	5	0.112208	Other services	-0.015472	4	0.984528	
	Property	-0.72603	4	0.27397	Property	-0.782299	4	0.217701	Property	-0.490234	4	0.509766	Property	-0.490234	4	0.509766	Property	-0.2964	4	0.7036	Property	0.608994	3	0.583147	Property	0.383549	3	0.749403	
	Retail & distribution	-0.768097	5	0.129294	Retail & distribution	0.513587	6	0.297355	Retail & distribution	0.147647	7	0.75207	Retail & distribution	0.147647	7	0.75207	Retail & distribution	-0.634663	7	0.125728	Retail & distribution	0.750384	6	0.085685	Retail & distribution	0.137525	6	0.795013	
	Transport & leisure	-0.874924	3	0.321822	Transport & leisure	-0.862106	4	0.137894	Transport & leisure	0.954961	3	0.191793	Transport & leisure	0.954961	3	0.191793	Transport & leisure	-0.200954	3	0.871192	Transport & leisure	-0.997968	4	0.002032	Transport & leisure	-0.095552	4	0.904448	
	Utilities	-0.022707	8	0.957439	Utilities	0.408333	8	0.315223	Utilities	0.088585	7	0.850203	Utilities	0.088585	7	0.850203	Utilities	0.104579	7	0.82343	Utilities	-0.621088	5	0.263493	Utilities	-0.193598	5	0.755051	
Test Stat		10.72134			Test Stat		14.85038		Test Stat		3.604671		Test Stat		5.133689		Test Stat		10.49429	Test Stat		22.24683		Test Stat		3.554904			
p-value		0.466895			p-value		0.18945		p-value		0.98009		p-value		0.88207		p-value		0.398248	p-value		0.022529		p-value		0.98118			

H3m: Pay-Performance relationships by Industry

2008-09 All - EPS Growth					EBITDA				
CEO TCash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.25609	5	0.677536	Chemicals & pharmaceuticals	0.94902	5	0.013711	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.316409	5	0.603963	Engineering & other manufacture	-0.117624	5	0.850583	
	Finance	0.256194	14	0.376639	Finance	1	2	NA	
	Food/drink & tobacco	0.353785	5	0.559129	Food/drink & tobacco	-0.771436	5	0.12658	
	Media/marketing & telecoms	0.396201	6	0.436796	Media/marketing & telecoms	-0.533735	5	0.354235	
	Oil/gas & minerals	-0.010657	11	0.975191	Oil/gas & minerals	-0.464733	11	0.14981	
	Other services	-0.542006	4	0.457994	Other services	0.775965	4	0.224035	
	Property	-0.427011	4	0.572989	Property	-0.179889	4	0.820111	
	Retail & distribution	0.325688	5	0.592773	Retail & distribution	-0.693122	5	0.194403	
	Transport & leisure	0.624779	3	0.570378	Transport & leisure	0.851061	3	0.35192	
	Utilities	0.445375	8	0.26878	Utilities	0.348329	8	0.39779	
Test Stat		2.658067				14.38695			
p-value		0.994517				0.156062			
2007-08 All - EPS Growth					EBITDA				
CEO TCash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.657518	5	0.227832	Chemicals & pharmaceuticals	-0.932284	5	0.020937	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.743338	4	0.256662	Engineering & other manufacture	0.316138	4	0.683862	
	Finance	0.079639	16	0.769384	Finance	1	2	NA	
	Food/drink & tobacco	-0.068512	7	0.883963	Food/drink & tobacco	-0.606287	7	0.148961	
	Media/marketing & telecoms	-0.759773	7	0.047501	Media/marketing & telecoms	0.34157	6	0.507571	
	Oil/gas & minerals	0.051787	7	0.912202	Oil/gas & minerals	-0.717535	7	0.069466	
	Other services	1	2	NA	Other services	-1	2	NA	
	Property	-0.849287	4	0.150714	Property	-0.972017	4	0.027983	
	Retail & distribution	0.205585	6	0.695968	Retail & distribution	-0.475581	6	0.340412	
	Transport & leisure	-0.052501	4	0.947499	Transport & leisure	-0.254581	4	0.745419	
	Utilities	-0.23865	7	0.606294	Utilities	0.084409	7	0.857213	
Test Stat		7.737569				10.52352			
p-value		0.654453				0.309787			
2006-07 All - EPS Growth					EBITDA				
CEO TCash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.816355	5	0.091825	Chemicals & pharmaceuticals	-0.745467	5	0.148126	
	Construction & building materials	-0.47126	3	0.687599	Construction & building materials	-0.985816	3	0.107352	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.997273	3	0.04703	Engineering & other manufacture	-0.521784	3	0.650534	
	Finance	0.373674	16	0.153951	Finance	-1	2	NA	
	Food/drink & tobacco	0.324494	7	0.477661	Food/drink & tobacco	-0.09869	7	0.833274	
	Media/marketing & telecoms	0.609615	7	0.146133	Media/marketing & telecoms	-0.096622	5	0.877169	
	Oil/gas & minerals	0.534535	6	0.274563	Oil/gas & minerals	0.261566	6	0.616599	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	0.648045	4	0.351955	Property	0.443147	4	0.556853	
	Retail & distribution	0.160754	5	0.796207	Retail & distribution	0.047787	5	0.939179	
	Transport & leisure	0.772974	3	0.437536	Transport & leisure	-0.951839	3	0.198381	
	Utilities	-0.153969	7	0.741701	Utilities	-0.351766	7	0.439074	
Test Stat		6.305294				2.519568			
p-value		0.852237				0.990588			
2005-06 All - EPS Growth					EBITDA				
CEO TCash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.172066	7	0.712197	Chemicals & pharmaceuticals	0.354231	7	0.435647	
	Construction & building materials	NA	2	NA	Construction & building materials	NA	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.786633	4	0.213367	Engineering & other manufacture	0.948004	4	0.051996	
	Finance	0.05623	14	0.848583	Finance	NA	1	NA	
	Food/drink & tobacco	0.042085	9	0.914392	Food/drink & tobacco	-0.331381	9	0.383682	
	Media/marketing & telecoms	0.323287	8	0.434748	Media/marketing & telecoms	-0.498343	6	0.314366	
	Oil/gas & minerals	-0.001984	7	0.996631	Oil/gas & minerals	0.748364	7	0.052988	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	0.045712	4	0.954288	Property	0.07632	4	0.92368	
	Retail & distribution	-0.373985	7	0.408555	Retail & distribution	-0.862175	7	0.012558	
	Transport & leisure	0.567168	3	0.616078	Transport & leisure	0.47093	3	0.687837	
	Utilities	0.268734	7	0.560077	Utilities	-0.19912	7	0.668625	
Test Stat		2.405983				15.91781			
p-value		0.982176				0.068618			
2004-05 All - EPS Growth					EBITDA				
CEO TCash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-1	2	NA	Chemicals & pharmaceuticals	1	2	NA	
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.291572	4	0.708428	Engineering & other manufacture	0.042346	4	0.957654	
	Finance	-0.245966	14	0.396632	Finance	NA	1	NA	
	Food/drink & tobacco	-0.800295	8	0.017049	Food/drink & tobacco	-0.101736	8	0.810556	
	Media/marketing & telecoms	-0.179362	10	0.620026	Media/marketing & telecoms	0.173576	8	0.681022	
	Oil/gas & minerals	0.630268	4	0.369732	Oil/gas & minerals	0.919	4	0.081	
	Other services	0.097047	5	0.876663	Other services	0.957606	5	0.010411	
	Property	-0.965457	3	0.167817	Property	0.346962	3	0.774427	
	Retail & distribution	0.727167	5	0.16389	Retail & distribution	0.071759	5	0.908712	
	Transport & leisure	0.71699	3	0.491039	Transport & leisure	-0.965397	3	0.167964	
	Utilities	-0.391874	5	0.514133	Utilities	-0.50507	5	0.385422	
Test Stat		7.672016				9.375213			
p-value		0.660839				0.403384			

H3m: Pay-Performance relationships by Industry

2008-09 All - CEO TCash		Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.494724	5	0.39683	Chemicals & pharmaceuticals	-0.603315	5	0.281386	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.252665	5	0.681753	Engineering & other manufacture	-0.090481	5	0.884953	
	Finance	-0.111547	14	0.704209	Finance	-0.069854	14	0.812431	
	Food/drink & tobacco	-0.236889	5	0.701229	Food/drink & tobacco	0.40578	5	0.497896	
	Media/marketing & telecoms	-0.152346	6	0.773249	Media/marketing & telecoms	-0.30333	6	0.558959	
	Oil/gas & minerals	-0.165621	11	0.626487	Oil/gas & minerals	0.173752	11	0.609398	
	Other services	0.481128	4	0.518872	Other services	0.548865	4	0.451135	
	Property	0.93947	4	0.06053	Property	0.618058	4	0.381942	
	Retail & distribution	0.850276	5	0.067963	Retail & distribution	0.912649	5	0.030582	
	Transport & leisure	0.788295	3	0.421928	Transport & leisure	0.995755	3	0.058682	
	Utilities	0.096045	8	0.821021	Utilities	0.16277	8	0.700154	
Test Stat		7.613739				7.2739			
p-value		0.74743				0.776489			
2007-08 All - CEO TCash		Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.599591	5	0.285174	Chemicals & pharmaceuticals	0.900156	4	0.099844	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.612314	4	0.387686	Engineering & other manufacture	-0.005973	4	0.994027	
	Finance	0.425488	16	0.100366	Finance	-0.482455	15	0.068544	
	Food/drink & tobacco	0.069573	7	0.882175	Food/drink & tobacco	-0.060728	7	0.897094	
	Media/marketing & telecoms	0.528339	6	0.281232	Media/marketing & telecoms	0.459169	7	0.299997	
	Oil/gas & minerals	-0.255997	7	0.579506	Oil/gas & minerals	0.126854	7	0.786374	
	Other services	-1	2	NA	Other services	1	2	NA	
	Property	-0.647671	4	0.352329	Property	0.078316	4	0.921684	
	Retail & distribution	0.045713	6	0.931478	Retail & distribution	0.353582	6	0.49173	
	Transport & leisure	-0.320108	4	0.679892	Transport & leisure	0.112398	4	0.887602	
	Utilities	0.419068	7	0.349357	Utilities	-0.201474	6	0.701878	
Test Stat		5.032533				7.003877			
p-value		0.888994				0.725079			
2006-07 All - CEO TCash		Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.38371	5	0.523713	Chemicals & pharmaceuticals	0.317943	5	0.602111	
	Construction & building materials	-0.245751	3	0.841931	Construction & building materials	0.217703	3	0.860287	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.059393	3	0.962167	Engineering & other manufacture	0.242756	3	0.843897	
	Finance	-0.277081	16	0.298832	Finance	-0.317199	16	0.231268	
	Food/drink & tobacco	-0.594683	7	0.159033	Food/drink & tobacco	-0.310767	7	0.497528	
	Media/marketing & telecoms	0.700248	6	0.121311	Media/marketing & telecoms	0.09037	6	0.864814	
	Oil/gas & minerals	0.833467	6	0.039291	Oil/gas & minerals	0.875593	6	0.022253	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	0.833556	4	0.166444	Property	0.715514	4	0.284486	
	Retail & distribution	-0.718073	5	0.171895	Retail & distribution	-0.28988	5	0.636149	
	Transport & leisure	-0.534977	3	0.64064	Transport & leisure	-0.435052	3	0.71346	
	Utilities	0.689595	7	0.086488	Utilities	0.733656	7	0.060549	
Test Stat		15.42233				11.69175			
p-value		0.163967				0.387253			
2005-06 All - CEO TCash		Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.255781	7	0.579836	Chemicals & pharmaceuticals	0.288291	7	0.530664	
	Construction & building materials	NA	2	NA	Construction & building materials	NA	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.936164	4	0.063836	Engineering & other manufacture	-0.657023	4	0.342977	
	Finance	0.121789	14	0.67832	Finance	-0.018164	14	0.950855	
	Food/drink & tobacco	0.306228	9	0.422874	Food/drink & tobacco	0.427005	9	0.251682	
	Media/marketing & telecoms	-0.366989	7	0.418074	Media/marketing & telecoms	0.494001	6	0.319276	
	Oil/gas & minerals	0.390594	7	0.386309	Oil/gas & minerals	0.027441	7	0.953432	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	-0.811299	4	0.188701	Property	0.189368	4	0.810633	
	Retail & distribution	-0.491274	7	0.262875	Retail & distribution	0.170948	7	0.714012	
	Transport & leisure	0.619444	3	0.574717	Transport & leisure	0.865747	3	0.333687	
	Utilities	0.50276	7	0.250136	Utilities	0.504836	7	0.247863	
Test Stat		8.876096				2.90734			
p-value		0.543902				0.983521			
2004-05 All - CEO TCash		Sales Growth				Net Income Growth			
	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-1	2	NA	Chemicals & pharmaceuticals	1	2	NA	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.842367	4	0.157633	Engineering & other manufacture	0.133506	4	0.866494	
	Finance	0.109079	14	0.710492	Finance	-0.123341	14	0.674424	
	Food/drink & tobacco	0.298486	8	0.472692	Food/drink & tobacco	0.068756	8	0.871488	
	Media/marketing & telecoms	0.464412	9	0.20788	Media/marketing & telecoms	0.696062	8	0.055165	
	Oil/gas & minerals	0.815652	4	0.184348	Oil/gas & minerals	0.889085	4	0.110915	
	Other services	-0.18578	5	0.764826	Other services	0.126815	5	0.838968	
	Property	0.218049	3	0.860062	Property	-0.74465	3	0.465232	
	Retail & distribution	0.256128	5	0.677489	Retail & distribution	0.190225	5	0.759266	
	Transport & leisure	-0.957043	3	0.187275	Transport & leisure	-0.920665	3	0.255295	
	Utilities	0.72641	5	0.164553	Utilities	0.473155	5	0.420862	
Test Stat		3.430295				5.093868			
p-value		0.969412				0.88482			

H3m: Pay-Performance relationships by Industry

2008-09 All - TSR					ROE				
CEO TCash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.666186	5	0.219559	Chemicals & pharmaceuticals	0.651277	5	0.23384	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.159563	5	0.797703	Engineering & other manufacture	0.37807	5	0.530354	
	Finance	0.382035	14	0.177664	Finance	-0.013214	14	0.964241	
	Food/drink & tobacco	-0.411785	5	0.490918	Food/drink & tobacco	-0.840957	5	0.074295	
	Media/marketing & telecoms	0.448052	6	0.372896	Media/marketing & telecoms	-0.748117	6	0.087177	
	Oil/gas & minerals	0.700798	11	0.016296	Oil/gas & minerals	0.129433	11	0.70447	
	Other services	-0.256583	4	0.743417	Other services	0.373257	4	0.626743	
	Property	-0.673835	4	0.326165	Property	-0.655778	4	0.344222	
	Retail & distribution	0.17425	5	0.779266	Retail & distribution	-0.094075	4	0.905925	
	Transport & leisure	0.295181	3	0.80924	Transport & leisure	0.872808	3	0.324594	
	Utilities	0.424711	8	0.294246	Utilities	0.429022	8	0.288841	
Test Stat		6.17451				9.305432			
p-value		0.86147				0.593722			
2007-08 All - TSR					ROE				
CEO Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.972064	5	0.005582	Chemicals & pharmaceuticals	-0.11852	5	0.849449	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.971367	4	0.028633	Engineering & other manufacture	-0.035032	4	0.964968	
	Finance	0.504344	16	0.046352	Finance	0.70988	16	0.002065	
	Food/drink & tobacco	-0.393932	7	0.381898	Food/drink & tobacco	-0.131996	7	0.777864	
	Media/marketing & telecoms	-0.380351	7	0.399971	Media/marketing & telecoms	0.528559	6	0.280994	
	Oil/gas & minerals	-0.189481	7	0.68407	Oil/gas & minerals	0.116343	7	0.803824	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	0.158625	4	0.841375	Property	0.544341	4	0.455659	
	Retail & distribution	0.487832	6	0.326299	Retail & distribution	-0.062419	6	0.906493	
	Transport & leisure	-0.378428	4	0.621572	Transport & leisure	-0.927206	4	0.072794	
	Utilities	0.164117	7	0.725124	Utilities	0.121458	7	0.795324	
Test Stat		18.71442				10.39092			
p-value		0.044044				0.406892			
2006-07 All - TSR					ROE				
CEO Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.504813	5	0.385703	Chemicals & pharmaceuticals	-0.872257	4	0.127743	
	Construction & building materials	-0.985496	3	0.108559	Construction & building materials	0.597702	3	0.592161	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.449314	3	0.703337	Engineering & other manufacture	0.599955	3	0.59037	
	Finance	0.380075	16	0.146463	Finance	0.194006	15	0.488421	
	Food/drink & tobacco	0.662596	7	0.104822	Food/drink & tobacco	-0.047328	7	0.919744	
	Media/marketing & telecoms	-0.417469	7	0.351391	Media/marketing & telecoms	-0.471218	6	0.345489	
	Oil/gas & minerals	0.845883	6	0.033798	Oil/gas & minerals	-0.402043	6	0.429429	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	0.144198	4	0.855802	Property	0.758366	4	0.241634	
	Retail & distribution	0.145164	5	0.815822	Retail & distribution	-0.104121	5	0.867669	
	Transport & leisure	0.611209	3	0.581367	Transport & leisure	0.398314	3	0.739191	
	Utilities	0.000333	7	0.999435	Utilities	0.083534	7	0.858682	
Test Stat		6.438752				4.613895			
p-value		0.842546				0.948416			
2005-06 All - TSR					ROE				
CEO Tcash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.260389	7	0.572783	Chemicals & pharmaceuticals	0.393918	6	0.439685	
	Construction & building materials	NA	2	NA	Construction & building materials	NA	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.954206	4	0.045794	Engineering & other manufacture	0.918148	4	0.081852	
	Finance	0.016433	14	0.955535	Finance	0.408342	14	0.147193	
	Food/drink & tobacco	0.038578	9	0.921507	Food/drink & tobacco	-0.255553	8	0.541292	
	Media/marketing & telecoms	-0.202993	8	0.629714	Media/marketing & telecoms	0.392728	7	0.383487	
	Oil/gas & minerals	0.774273	7	0.040998	Oil/gas & minerals	0.673449	7	0.09723	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	0.7818	4	0.2182	Property	0.862967	4	0.137033	
	Retail & distribution	0.165345	6	0.754243	Retail & distribution	-0.881648	7	0.008675	
	Transport & leisure	-0.108302	3	0.930917	Transport & leisure	-0.586041	3	0.601372	
	Utilities	0.521154	7	0.230342	Utilities	0.369384	7	0.414805	
Test Stat		9.700527				16.76084			
p-value		0.467148				0.079826			
2004-05 All - TSR					ROE				
CEO TCash	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-1	2	NA	Chemicals & pharmaceuticals	1	2	NA	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.648652	4	NA	Engineering & other manufacture	-0.822127	4	0.177873	
	Finance	0.524402	14	0.054219	Finance	-0.144759	14	0.62148	
	Food/drink & tobacco	-0.350292	8	0.394953	Food/drink & tobacco	0.308575	7	0.500727	
	Media/marketing & telecoms	0.306769	10	0.388608	Media/marketing & telecoms	-0.052059	7	0.911741	
	Oil/gas & minerals	-0.439555	4	0.560445	Oil/gas & minerals	0.899231	4	0.100769	
	Other services	0.151866	5	0.807384	Other services	0.169666	3	0.891462	
	Property	-0.949815	3	0.202541	Property	0.202966	3	0.869884	
	Retail & distribution	0.839697	5	0.075165	Retail & distribution	0.624748	5	0.259848	
	Transport & leisure	-0.997071	3	0.048739	Transport & leisure	-0.99535	3	0.061415	
	Utilities	-0.317897	5	0.602166	Utilities	-0.619743	5	0.264837	
Test Stat		6.442842				6.282615			
p-value		0.776788				0.790987			

H3m: Pay-Performance relationships by Industry

2008-09 All - EPS Growth					EBITDA				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.2494	5	0.685772	Chemicals & pharmaceuticals	0.963136	5	0.008449	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	Engineering & other manufacture	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.0783	5	0.900452	Engineering & other manufacture	0.516692	5	0.372701	
	Finance	0.44683	14	0.109207	Finance	1	2	NA	
	Food/drink & tobacco	0.50199	5	0.388812	Food/drink & tobacco	-0.429976	5	0.469909	
	Media/marketing & telecoms	0.31815	6	0.538878	Media/marketing & telecoms	-0.475367	5	0.418382	
	Oil/gas & minerals	0.33894	11	0.307897	Oil/gas & minerals	0.414746	11	0.204678	
	Other services	0.10389	4	0.896112	Other services	-0.981449	4	0.018551	
	Property	-0.4401	4	0.559944	Property	-0.287271	4	0.712729	
	Retail & distribution	-0.2696	5	0.660942	Retail & distribution	-0.215296	5	0.728009	
	Transport & leisure	0.41771	3	0.725668	Transport & leisure	0.698805	3	0.507431	
	Utilities	-0.7707	8	0.025205	Utilities	-0.487865	8	0.220036	
Test Stat		9.67101				18.09283			
p-value		0.5602				0.053418			
2007-08 All - EPS Growth					EBITDA				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.74924	5	0.144936	Chemicals & pharmaceuticals	-0.884607	5	0.046231	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.10348	4	0.896524	Engineering & other manufacture	0.292613	4	0.707387	
	Finance	-0.0171	16	0.94983	Finance	1	2	NA	
	Food/drink & tobacco	-0.1325	7	0.777092	Food/drink & tobacco	-0.365224	7	0.420487	
	Media/marketing & telecoms	-0.5082	7	0.244175	Media/marketing & telecoms	-0.237953	6	0.649808	
	Oil/gas & minerals	-0.3444	7	0.449432	Oil/gas & minerals	0.039246	7	0.933425	
	Other services	-1	2	NA	Other services	1	2	NA	
	Property	-0.7705	4	0.22949	Property	-0.393645	4	0.606355	
	Retail & distribution	0.18285	6	0.728777	Retail & distribution	-0.352681	6	0.492912	
	Transport & leisure	0.19322	4	0.806784	Transport & leisure	-0.207029	4	0.792971	
	Utilities	-0.0497	7	0.915674	Utilities	0.064925	7	0.890011	
Test Stat		4.71748				3.802738			
p-value		0.90923				0.923909			
2006-07 All - EPS Growth					EBITDA				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.7337	5	0.158234	Chemicals & pharmaceuticals	-0.114731	5	0.854241	
	Construction & building materials	0.73977	3	0.469872	Construction & building materials	0.872377	3	0.325155	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.1973	3	0.873537	Engineering & other manufacture	-0.681348	3	0.522788	
	Finance	0.24429	16	0.36187	Finance	-1	2	NA	
	Food/drink & tobacco	-0.2383	7	0.606854	Food/drink & tobacco	-0.186463	7	0.688925	
	Media/marketing & telecoms	0.7846	7	0.036687	Media/marketing & telecoms	-0.085264	5	0.891571	
	Oil/gas & minerals	0.22497	6	0.668239	Oil/gas & minerals	-0.217452	6	0.678963	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	-0.5594	4	0.440559	Property	-0.942401	4	0.057599	
	Retail & distribution	0.22996	5	0.709802	Retail & distribution	-0.751098	5	0.14337	
	Transport & leisure	0.99953	3	0.019471	Transport & leisure	-0.941004	3	0.219769	
	Utilities	0.47117	7	0.285869	Utilities	0.139387	7	0.765662	
Test Stat		7.41441				4.035161			
p-value		0.7646				0.945747			
2005-06 All - EPS Growth					EBITDA				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.28535	7	0.535053	Chemicals & pharmaceuticals	0.568063	7	0.183374	
	Construction & building materials	1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.69452	4	0.30548	Engineering & other manufacture	0.6191	4	0.3809	
	Finance	0.24563	14	0.397298	Finance	NA	1	NA	
	Food/drink & tobacco	0.20516	9	0.596426	Food/drink & tobacco	-0.036819	9	0.925077	
	Media/marketing & telecoms	0.05645	8	0.894378	Media/marketing & telecoms	-0.311415	6	0.547978	
	Oil/gas & minerals	0.00861	7	0.985385	Oil/gas & minerals	0.095301	7	0.838946	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	0.36048	4	0.639523	Property	-0.421074	4	0.578926	
	Retail & distribution	-0.7479	7	0.053197	Retail & distribution	-0.200722	7	0.666066	
	Transport & leisure	0.49011	3	0.67391	Transport & leisure	-0.999389	3	0.022247	
	Utilities	0.45232	7	0.308201	Utilities	-0.196569	7	0.672703	
Test Stat		6.31163				3.060602			
p-value		0.78844				0.961844			
2004-05 All - EPS Growth					EBITDA				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	1	2	NA	Chemicals & pharmaceuticals	-1	2	NA	
	Construction & building materials	-1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.031	4	0.969001	Engineering & other manufacture	0.764317	4	0.235683	
	Finance	0.21676	14	0.456658	Finance	NA	1	NA	
	Food/drink & tobacco	-0.7804	8	0.022319	Food/drink & tobacco	0.066403	8	0.87586	
	Media/marketing & telecoms	-0.2523	10	0.481976	Media/marketing & telecoms	0.183931	8	0.662829	
	Oil/gas & minerals	0.39998	4	0.600017	Oil/gas & minerals	0.756047	4	0.243953	
	Other services	0.45017	5	0.446816	Other services	0.475816	5	0.41788	
	Property	0.61718	3	0.576551	Property	0.283634	3	0.81692	
	Retail & distribution	0.76035	5	0.135656	Retail & distribution	-0.206269	5	0.739245	
	Transport & leisure	0.77699	3	0.433492	Transport & leisure	-0.937959	3	0.225427	
	Utilities	-0.5341	5	0.353821	Utilities	-0.498267	5	0.392914	
Test Stat		9.63781				2.97504			
p-value		0.47282				0.965276			

H3m: Pay-Performance relationships by Industry

2008-09 All - Sales Growth					Net Income Growth				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.306514	5	0.615934	Chemicals & pharmaceuticals	-0.790158	5	0.111688	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.544552	5	0.342636	Engineering & other manufacture	0.472224	5	0.421907	
	Finance	-0.207214	14	0.4772	Finance	0.140257	14	0.632478	
	Food/drink & tobacco	-0.411161	5	0.491643	Food/drink & tobacco	0.307138	5	0.615178	
	Media/marketing & telecoms	0.647097	6	0.164835	Media/marketing & telecoms	0.573193	6	0.234372	
	Oil/gas & minerals	0.125329	11	0.713493	Oil/gas & minerals	-0.501204	11	0.116285	
	Other services	0.271485	4	0.728515	Other services	0.227622	4	0.772378	
	Property	0.970418	4	0.029582	Property	0.699211	4	0.300789	
	Retail & distribution	-0.156669	5	0.801342	Retail & distribution	0.110784	5	0.859235	
	Transport & leisure	0.616354	3	0.577218	Transport & leisure	0.944146	3	0.213779	
	Utilities	-0.29815	8	0.473214	Utilities	-0.650612	8	0.080638	
Test Stat		8.558893				10.37061			
p-value		0.662535				0.497391			
2007-08 All - Sales Growth					Net Income Growth				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.951357	5	0.012784	Chemicals & pharmaceuticals	0.908512	4	0.091488	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.971741	4	0.028259	Engineering & other manufacture	0.344793	4	0.655207	
	Finance	0.092739	16	0.732651	Finance	-0.353518	15	0.196144	
	Food/drink & tobacco	0.265062	7	0.565656	Food/drink & tobacco	0.015472	7	0.973738	
	Media/marketing & telecoms	0.308912	6	0.551372	Media/marketing & telecoms	0.2311	7	0.618065	
	Oil/gas & minerals	0.002016	7	0.996578	Oil/gas & minerals	-0.464947	7	0.293154	
	Other services	1	2	NA	Other services	-1	2	NA	
	Property	-0.388407	4	0.611593	Property	-0.644515	4	0.355485	
	Retail & distribution	-0.094552	6	0.858594	Retail & distribution	0.342647	6	0.506144	
	Transport & leisure	-0.544451	4	0.455549	Transport & leisure	0.353209	4	0.646791	
	Utilities	0.261556	7	0.571001	Utilities	-0.342395	6	0.506477	
Test Stat		10.71631				6.336933			
p-value		0.380043				0.786206			
2006-07 All - Sales Growth					Net Income Growth				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.639865	5	0.244937	Chemicals & pharmaceuticals	-0.069465	5	0.911625	
	Construction & building materials	-0.093573	3	0.940342	Construction & building materials	-0.532469	3	0.642529	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.977381	3	0.13566	Engineering & other manufacture	0.868871	3	0.329692	
	Finance	0.028618	16	0.916213	Finance	-0.490267	16	0.053861	
	Food/drink & tobacco	-0.176986	7	0.704223	Food/drink & tobacco	-0.41636	7	0.352805	
	Media/marketing & telecoms	0.799754	6	0.056133	Media/marketing & telecoms	0.210081	6	0.689515	
	Oil/gas & minerals	0.688824	6	0.13018	Oil/gas & minerals	0.842682	6	0.035177	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	-0.691678	4	0.308322	Property	-0.911939	4	0.088061	
	Retail & distribution	-0.082696	5	0.894829	Retail & distribution	0.229202	5	0.710746	
	Transport & leisure	-0.939502	3	0.222576	Transport & leisure	0.205507	3	0.868231	
	Utilities	0.755662	7	0.04944	Utilities	0.623477	7	0.134649	
Test Stat		10.18953				13.59817			
p-value		0.513424				0.256031			
2005-06 All - Sales Growth					Net Income Growth				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.354632	7	0.435091	Chemicals & pharmaceuticals	0.067679	7	0.885367	
	Construction & building materials	1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.320274	4	0.679726	Engineering & other manufacture	-0.270482	4	0.729518	
	Finance	0.254376	14	0.380152	Finance	-0.08109	14	0.782873	
	Food/drink & tobacco	0.704757	9	0.033999	Food/drink & tobacco	0.246332	9	0.522863	
	Media/marketing & telecoms	-0.326053	7	0.475423	Media/marketing & telecoms	0.49226	6	0.321252	
	Oil/gas & minerals	0.409764	7	0.361263	Oil/gas & minerals	0.285394	7	0.534988	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	-0.753564	4	0.246436	Property	-0.288951	4	0.711049	
	Retail & distribution	-0.797325	7	0.031739	Retail & distribution	0.386059	7	0.392334	
	Transport & leisure	-0.977502	3	0.135296	Transport & leisure	0.068745	3	0.956201	
	Utilities	0.715668	7	0.070541	Utilities	0.639496	7	0.121971	
Test Stat		15.56171				3.224653			
p-value		0.112885				0.975632			
2004-05 All - Sales Growth					Net Income Growth				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	1	2	NA	Chemicals & pharmaceuticals	-1	2	NA	
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.810237	4	0.189763	Engineering & other manufacture	-0.191362	4	0.808638	
	Finance	0.075007	14	0.798844	Finance	0.326387	14	0.254742	
	Food/drink & tobacco	0.122114	8	0.773302	Food/drink & tobacco	-0.146468	8	0.729275	
	Media/marketing & telecoms	0.60154	9	0.086598	Media/marketing & telecoms	0.738461	8	0.036411	
	Oil/gas & minerals	0.662755	4	0.337245	Oil/gas & minerals	0.734196	4	0.265804	
	Other services	0.194736	5	0.753631	Other services	0.61993	5	0.264649	
	Property	-0.75905	3	0.451327	Property	0.1966	3	0.87402	
	Retail & distribution	-0.201448	5	0.745254	Retail & distribution	-0.133128	5	0.830998	
	Transport & leisure	-0.926961	3	0.244824	Transport & leisure	-0.881715	3	0.312778	
	Utilities	0.079656	5	0.898686	Utilities	-0.425442	5	0.475126	
Test Stat		4.139744				5.637676			
p-value		0.940823				0.844731			

H3m: Pay-Performance relationships by Industry

2008-09 All - TSR					ROE				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.679323	5	0.207183	Chemicals & pharmaceuticals	0.586493	5	0.298601	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.871202	5	0.054403	Engineering & other manufacture	0.675025	5	0.21121	
	Finance	0.400021	14	0.156426	Finance	0.554678	14	0.039529	
	Food/drink & tobacco	-0.161152	5	0.795706	Food/drink & tobacco	-0.661531	5	0.223991	
	Media/marketing & telecoms	0.191704	6	0.715966	Media/marketing & telecoms	-0.789625	6	0.061731	
	Oil/gas & minerals	-0.071175	11	0.835266	Oil/gas & minerals	0.370422	11	0.262117	
	Other services	-0.438539	4	0.561461	Other services	-0.897056	4	0.102944	
	Property	-0.730313	4	0.269687	Property	-0.709182	4	0.290818	
	Retail & distribution	-0.42969	5	0.470237	Retail & distribution	0.267715	4	0.732285	
	Transport & leisure	0.055687	3	0.96453	Transport & leisure	0.728995	3	0.479976	
	Utilities	-0.049774	8	0.906829	Utilities	0.067969	8	0.87295	
Test Stat		7.642922				14.31277			
p-value		0.744888				0.216167			
2007-08 All - TSR					ROE				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.74628	5	0.147436	Chemicals & pharmaceuticals	-0.732489	5	0.195258	
	Construction & building materials	NA	1	NA	Construction & building materials	NA	1	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.60539	4	0.39461	Engineering & other manufacture	0.360426	4	0.639574	
	Finance	0.558814	16	0.02444	Finance	0.379146	16	0.147533	
	Food/drink & tobacco	-0.245402	7	0.595824	Food/drink & tobacco	0.125657	7	0.788358	
	Media/marketing & telecoms	0.099799	7	0.831419	Media/marketing & telecoms	0.383866	6	0.452484	
	Oil/gas & minerals	-0.495459	7	0.2582	Oil/gas & minerals	-0.818938	7	0.024241	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	-0.636662	4	0.363338	Property	0.774022	4	0.225978	
	Retail & distribution	0.504624	6	0.307314	Retail & distribution	0.077374	6	0.88417	
	Transport & leisure	-0.138611	4	0.861389	Transport & leisure	-0.987313	4	0.012687	
	Utilities	0.696487	7	0.082104	Utilities	0.237729	7	0.607726	
Test Stat		9.401928				17.52862			
p-value		0.494431				0.063455			
2006-07 All - TSR					ROE				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	0.925704	5	0.024037	Chemicals & pharmaceuticals	-0.193132	4	0.806868	
	Construction & building materials	0.871508	3	0.326286	Construction & building materials	-0.831773	3	0.374652	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	0.739466	3	0.470156	Engineering & other manufacture	0.609019	3	0.583126	
	Finance	0.151948	16	0.574274	Finance	0.231397	15	0.406653	
	Food/drink & tobacco	0.061267	7	0.896184	Food/drink & tobacco	0.091772	7	0.844858	
	Media/marketing & telecoms	-0.130251	7	0.780749	Media/marketing & telecoms	-0.392889	6	0.44099	
	Oil/gas & minerals	0.563784	6	0.243924	Oil/gas & minerals	-0.604882	6	0.203334	
	Other services	-1	2	NA	Other services	-1	2	NA	
	Property	-0.550389	4	0.449611	Property	-0.295202	4	0.704798	
	Retail & distribution	0.255657	5	0.678069	Retail & distribution	-0.816974	5	0.091371	
	Transport & leisure	0.96728	3	0.163302	Transport & leisure	-0.244578	3	0.842701	
	Utilities	0.057288	7	0.902904	Utilities	0.159558	7	0.732561	
Test Stat		5.950046				5.382715			
p-value		0.876677				0.911226			
2005-06 All - TSR					ROE				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	-0.280489	7	0.542335	Chemicals & pharmaceuticals	0.583925	6	0.223662	
	Construction & building materials	-1	2	NA	Construction & building materials	1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.524108	4	0.475892	Engineering & other manufacture	0.437587	4	0.562413	
	Finance	0.088827	14	0.762674	Finance	0.093676	14	0.750085	
	Food/drink & tobacco	-0.069096	9	0.859798	Food/drink & tobacco	-0.283402	8	0.496388	
	Media/marketing & telecoms	-0.275578	8	0.508856	Media/marketing & telecoms	0.287308	7	0.53213	
	Oil/gas & minerals	0.173971	7	0.709106	Oil/gas & minerals	-0.235394	7	0.611362	
	Other services	1	2	NA	Other services	1	2	NA	
	Property	0.225465	4	0.774535	Property	0.9099	4	0.0901	
	Retail & distribution	-0.347319	6	0.499971	Retail & distribution	-0.416603	7	0.352494	
	Transport & leisure	0.940398	3	0.220905	Transport & leisure	0.985493	3	0.108569	
	Utilities	0.555597	7	0.195354	Utilities	0.165666	7	0.7226	
Test Stat		3.325587				5.695899			
p-value		0.972691				0.840133			
2004-05 All - TSR					ROE				
CEO Tcomp	Industry	cor	n	p-value	Industry	cor	n	p-value	
	Chemicals & pharmaceuticals	1	2	NA	Chemicals & pharmaceuticals	-1	2	NA	
	Construction & building materials	-1	2	NA	Construction & building materials	-1	2	NA	
	E-business & computer services	NA	1	NA	E-business & computer services	NA	1	NA	
	Engineering & other manufacture	-0.867875	4	0.132125	Engineering & other manufacture	0.439436	4	0.560564	
	Finance	0.165472	14	0.571844	Finance	0.432272	14	0.122677	
	Food/drink & tobacco	-0.445168	8	0.26903	Food/drink & tobacco	0.711953	7	0.072708	
	Media/marketing & telecoms	0.07921	10	0.827812	Media/marketing & telecoms	-0.191813	7	0.680326	
	Oil/gas & minerals	-0.690795	4	0.309205	Oil/gas & minerals	0.721782	4	0.278218	
	Other services	0.394912	5	0.510576	Other services	-0.712045	3	0.495538	
	Property	0.573364	3	0.611276	Property	0.423967	3	0.721274	
	Retail & distribution	0.931214	5	0.021431	Retail & distribution	0.320298	5	0.599269	
	Transport & leisure	-0.986095	3	0.106288	Transport & leisure	-0.982392	3	0.119643	
	Utilities	-0.77067	5	0.106288	Utilities	-0.349407	5	0.564347	
Test Stat		11.97052				3.840099			
p-value		0.287034				0.954272			