

Executive Remuneration: Discussion Paper. Response form

Please send your response by: 25 Nov 2011

About You	
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I am responding on behalf of (please tick)	
<input type="checkbox"/>	Yourself : Quoted company
<input type="checkbox"/>	Other company
<input type="checkbox"/>	Investor or investment manager
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Questions

Role of shareholders

1. Would a binding vote on remuneration improve shareholders' ability to hold companies to account on pay and performance? If so, how could this work in practice?

Yes	No
x	
Comments	
<p>Unite believe that a binding vote on remuneration could strengthen the position of shareholders/stakeholders and certainly give the vote more legitimacy.</p> <p>The role of the Shareholder vote on executive remuneration is specifically to oppose or support the amounts paid to the management team of a company and so anything that provides Shareholders with further powers to bind this vote in law would encourage deeper analysis of the remuneration report and the performance targets that should be outlined within it.</p> <p>There seems to be a general opinion that the remuneration report will be agreed no matter what and a concern that has been provided is the costs associated to any alternative should a no vote be cast. This attitude is unhelpful and also drives the opinion that executives feel they have free reign to benefit from whatever increases to salary that are applied no matter how unreasonable they appear.</p>	

2. Are there any further measures that could be taken to prevent payments for failure?

Comments
Payments for failure provide a typical example of what provokes resentment from stakeholders. The media have provided numerous

examples of excessive payments made to outgoing executives which have been part and parcel of the contracts signed by both companies and executives which are increasingly sided in favour of the outgoing executive.

Unite takes the view that as part of the original contract negotiations any termination payments should be broadly in line with overall company policy or restricted to a level as agreed by shareholders prior to appointment.

The second point could provide the shareholders with a clear opinion on decisions on termination payments and may also go some way in encouraging remuneration committees to put in place more stringent safeguards to protect both the finances and the reputation of the company.

3. What would be the advantages and disadvantages of requiring companies to include shareholder representatives on nominations committees?

Yes	No
Comments	
<p>Advantages – to have shareholder representatives on the nomination committee could assist in transparency and possibly provide an independent view on the best possible candidates for board membership.</p> <p>Another possible advantage may be the long term view that a shareholder may have with regards to company growth and best practice.</p> <p>Disadvantages – the possible implications of ‘insider’ trading’ would certainly discourage certain shareholders from being part of the nomination committee as the ability to trade share freely may be compromised with the availability of information on new directors that could have an effect on share price.</p> <p>In addition to the above point, many shareholders (institutional investors) are global so the practical side of being on a committee could be problematic.</p>	

Role of remuneration committees

4. Would there be benefits of having independent remuneration committee members with a more diverse range of professional backgrounds and what would be the risks and practical implications of any such measures?

Yes	No
x	
Comments	
<p>Unite the Union feels that there is already a narrow skills set and social outlook with a significant number of those individuals who are selected for participation of the remuneration committee having been either ex board members, being a director of another company or ex director. This familiarisation of the benefits of being a director may assist in the understanding of complex remuneration reports but would certainly taint the outlook of the remuneration committee and could diminish the impartiality if not the perception of others towards the impartiality of the remuneration committee.</p> <p>To invite other more independent persons with diverse professional backgrounds could enhance the reputation as well as the competency of the remuneration committee. Unite feels the risks would be limited in the case of adding individuals with relevant and valuable expertise but are aware that a framework for the practical arrangements would need to be drafted and additional costs may be added to the governance function.</p>	

5. Is there a need for stronger guidance on membership of remuneration committees, to prevent conflict of interest issues from arising?

Yes	No
x	
Comments	
<p>Conflicts of interest are of particular concern to Unite especially in the case of Remuneration Committees.</p> <p>In many cases the wider public view remuneration committees as merely a group of peers making decisions that are clearly beneficial for each other because a considerable number of non-executive directors</p>	

sit on other boards and appear to make decisions that benefit former colleagues and other associates.

This in turn would only drive up excessive remuneration as the ‘I scratch your back you scratch mine’ approach should be formally prohibited.

The only way to do this is to not only provide clear guidance as to the selection methods of membership of the remuneration committee but also with amendments to the Corporate Governance code preventing non-executive directors having influence over salary packages in companies they have direct links to.

6. Would there be benefits of requiring companies to include employee representatives on remunerations committees and what would be the risks and practical implications of any such measures?

Yes	No
x	
Comments	
<p>Unite feel strongly that this is one area where there should be certainly more input from employee representatives who would certainly take a long term view of what is best for the company.</p> <p>One risk of such a move would be the threat of intimidation or perceived threat of intimidation that could be felt by the employee representative as the setting of a remuneration committee may be unfamiliar territory.</p> <p>There may also be an opinion of management that impartiality would be lessened with the inclusion of an employee representative but Unite feel that the benefits of including an employee on the remuneration committee far outweigh any negative points.</p> <p>However, in order for a full unbiased decision on remuneration policy that takes into account a company’s full structure and culture Unite feels it is essential that the views of the workforce are taken into account in order to promote best practice and also to provide a link between the senior management whose decisions can influence potentially thousands of employees.</p>	

7. What would be the costs and benefits of an employee vote on remuneration proposals?

Comments
<p>Unite believes that the benefits of an employee vote would not outweigh inclusion of an employee representative on the remuneration committee but may go some way in taking into account the views of the workforce. As in the answer to question 6, Unite strongly feels that in order to promote best practice and have a view as to what is an appropriate level of remuneration after taking into account all the relevant benchmarking data.</p> <p>Unite does not have a view on the cost but feel that it could not be punitive to the company in question and the benefits of including the opinion of employees should never be downplayed.</p>

8. Will an increase in transparency over the use of remuneration consultants help to prevent conflict of interest or is there a role for stronger guidance or regulation?

Yes	No
x	
Comments	
<p>Unite feels that increased transparency in this area can only assist in giving the outlook that remuneration committees are committed to providing a fair and unbiased view as to what is an acceptable level of remuneration for executives.</p> <p>The use of remuneration consultants may give the impression that the committee is 'outsourcing' the decision making process but providing clear information on both their use and also any fees paid would hopefully go some way in providing guarantees that the full decision making process is maintained solely by the remuneration committee.</p> <p>This transparency or regulation that could surround this issue may not prevent conflicts of interests but it is important in at least addressing some of the concerns outlined above.</p>	

Structure of remuneration

9. Could the link between pay and performance be strengthened by moving away from TSR and EPS as the key measures of performance?

Yes	No
x	
Comments	
<p>A significant concern of Unite is the short term performance measures that are used in many remuneration policies. It is clear that the performance measure currently used by companies appear to be largely meaningless when you consider not only the large scale increases in directors remuneration (as very publicly highlighted at 50% in the 2011/12 IDS Directors pay report) but also some of the high profile ‘payments for failure’ that have circulated in the press recently.</p> <p>The effectiveness of these arrangements are brought into light by the above named report with the question, If pay for performance worked, how could several major UK banks have failed so spectacularly while others needed propping up from the state?</p> <p>The continued insistence that in order to retain the best candidates in senior positions you must pay the ‘market rates’ is a fallacy. The problem with this strategy is it a guarantee of continued remuneration increases as a company must always seek to better the average in order to attract and retain senior executives. Combine this problem with the previous issues surrounding the membership structure of remuneration committees and the remuneration packages will only go one way. Up.</p> <p>Unite feels that longer term objectives and awards must be put in place in order to properly evaluate long term sustainable performance. The criteria of long term performance must also be scrutinized as Unite has seen on many occasions the decisions of directors have a direct detrimental effect on employees with large scale redundancies and restructuring being put in place purely to improve the bottom line on an annual basis instead of strengthening the business as a whole.</p> <p>In addition to the longer term view, Unite has already called for a high pay commission to be created to review and consider proposals to restrict disproportionate remuneration such as maximum wage ratios and bonus taxation across both the private and public sectors.</p>	

10. Should more companies be encouraged to adopt vesting periods of more than three years?

Yes	No
Comments	
<p>As in the response to question 10, Unite feels that further scrutiny over the long term incentives provided to directors is needed.</p>	

11. Should companies be encouraged to reduce the frequency with which long-term incentive plans and other elements of remuneration are reviewed? What would be the benefits and challenges of doing this?

Yes	No
Comments	
<p>No comment</p>	

12. Would radically simpler models of remuneration which rely on a directors' level of share ownership to incentivise them to boost shareholder value, more effectively align directors with the interests of shareholders?

Yes	No
Comments	
<p>Unite has found that the majority of remuneration reports are convoluted and complex which in turn provide an opportunity for companies to confuse shareholders who are supposed to be voting on whether or not to accept a remuneration package.</p> <p>The argument that is continually faced on this issue is that in order to provide the whole picture of all the elements that make up the full compensation packages, a remuneration report is required to provide this large amount of information.</p>	

Unite feels that a significant addition to the annual report would be to provide a summary of the payments received by the directors within the overall financial summary. A key component of this would be to provide the total monetary amount taken and also the LTIP amounts due to all directors and also to provide a direct comparison to the previous period. Further details of the packages can be contained in the usual remuneration report found at a later point on the annual report.

13. Are there other ways in which remuneration - including bonuses, LTIPs, share options and pensions – could be simplified?

Yes	No
Comments	
<p>Unite does not have a particular view on the practicalities of simplification but for the sake of assisting stakeholders understand exactly how executives are being rewarded remuneration packages could be simplified.</p>	

14. Should all UK quoted companies be required to put in place claw-back mechanisms?

Yes	No
x	
Comments	
<p>Claw back proposals should not be an issue with good corporate governance and stringent performance targets being outlined within an executive directors remuneration package but as stated previously there have been a number of high profile cases in which if a claw back mechanism was in place may go some way in appeasing general stakeholder anger if something in the business model goes wrong. None more so then in the case of Sir Fred Goodwin at RBS in which it became a gesture of ‘goodwill’ when Sir Fred was pressurised into taking a reduced pension as opposed to any legislation being in place to cover the horrendously bad business decisions taken by RBS with Sir Fred at the helm.</p> <p>The US legislation that has come into effect surrounding a claw-back</p>	

facility is a direct response to that anger shown in the face of US compensation packages that were paid at the height of the 2008/09 recession, mainly to banking CEOs who were at best (in US law) guilty of exceptionally irresponsible decisions that cost the US taxpayer billions of dollars in bailout payments while walking away from posts with tens of millions of dollars.

Unite is of the opinion that claw-back measures can be seen as good corporate governance but we fear that if added as a stipulation in an executive directors contract could be used to justify the excessive remuneration that has been seen recently to offset the possible risk of having to pay back significant sums should an issue arise in subsequent years.

Promoting good practice

15. What is the best way of coordinating research on executive pay, highlighting emerging practice and maintaining a focus on the provision of accurate information on these issues?

Comments

There may be scope for a public body to monitor executive pay packages and provide annual comparisons of at least the FTSE 100 and report findings directly back to those charged with making good governance decisions within government. The IDS report that is available on an annual basis goes some way in analysing and comparing the data of the executive remuneration of the FTSE 350 and in highlighting the widening division between wages for general employees and senior management which has drawn criticism from even the Prime Minister.

However, as this is purely a research document there should certainly be some other regular scrutiny over this issue at a level in which there can be some influence over this inequality.

As previously stated in the response to Question 9, Unite has already called for a high pay commission to be created to review and consider proposals to restrict disproportionate remuneration such as maximum wage ratios and bonus taxation across both the private and public sectors.