

Institution: University of Surrey
Unit of Assessment: UOA 19 Business and Management Studies
Title of case study: <p style="text-align: center;">Transforming the Conduct of Senior Executive Reward</p>
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>In 2012 the Department for Business, Innovation and Skills (BIS) identified “the constant, ratcheting up of executive pay [a]s unsustainable” (section 5 below: 4;5). In addition to informing this call to action, Surrey’s research, in collaboration with PricewaterhouseCoopers (PwC), has changed how senior corporate decision-makers design and implement long term incentive plans (LTIPs). Adopted by PwC (the world’s largest professional services firm, operating in 159 countries and revenues of \$32bn), this research has influenced the company’s own reward policies and those of its international client network, some of the world’s largest corporations.</p> <p>The work has been part of policy debates and has been cited by UK BI Skills and the Financial Services Authority.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>The problem</p> <p>In 2012 the Department for Business, Innovation and Skills (BIS) identified senior executive reward as a problem needing urgent action (including government intervention). BIS identified a need to improve the design, reporting and governance of high level remuneration. The research conducted at Surrey is referred to in the Policy Options section of documents developed by the UK Department of Business, Innovation and Skills, highlighting its relevance to policy debate as well as corporate practices (for details see reference in section 4;iii below).</p> <p>The research</p> <p>Much previous research on senior executive reward has taken an economic perspective, typically based on principal agent theory. Surrey’s research was multidisciplinary, using insights from behavioural economics, cognitive psychology and decision-making. It was based on qualitative and quantitative studies of ‘FTSE 350’ senior executives. The work is unique in having secured high quality access to this elite group of professionals and adds validity to the results when compared to studies reliant on secondary corporate data. It focused on understanding how senior executives frame choices, perceive value, assess probability, evaluate temporal effects and respond to uncertainty in relation to reward choices and options.</p> <p>The findings</p> <p>The findings challenge many assumptions of conventional human resource models that have been applied to senior remuneration by corporations and the major consulting companies. It showed that conventional models often lead to inaccurate predictions or unintended behavioural consequences, such that long term incentive plans (the most commonly used senior reward strategy) are often neither efficient nor effective in motivating executive performance. It concluded that, in its current form, principal-agent theory does not provide a sound basis for modelling executive reward, and suggested various modifications.</p>

Relevance

Positive responses from corporates and policy-makers, have enabled further investigations. Research at Surrey and elsewhere has expanded this elite group of senior executive subjects to over 1000 worldwide. These on-going studies confirm the initial findings and demonstrate that the way that senior executives assess probabilities and value is affected by risk and uncertainty aversion as well as temporal discounting (the extent to which individuals prefer immediate modest rewards to future sizeable rewards). Results from this work have been published in field's world-leading journal, *The Journal of Management* (doi: [10.1177/0149206312461054](https://doi.org/10.1177/0149206312461054)).

3. References to the research (indicative maximum of six references)

1. Pepper A. and Gore J (2012) Behavioral Agency Theory: New Foundations for Theorizing About Executive Compensation. *Journal of Management* first published online first September 27, 2012 as doi:10.1177/0149206312461054
2. Pepper, A.A., Gore, J. and Crossman (2012) Are long term incentive plans an effective and efficient way of motivating senior executives? *Human Resource Management Journal. Jan. online in advance*
3. Pepper, A.A. and Gore, J. (2011) Towards a behavioural agency theory: new micro foundations for theorising about senior executive reward. *Proceedings of the 3rd European Reward Management Conference*. EIASM, December, Brussels. *Awarded Best Paper*
4. Pepper, S., Gore, J., & Crossman, A. (2010). Motivated Agents: Behavioural Aspects of Senior Executive Reward Systems. *Proceedings of the International Association for Research in Economic Psychology and Society for the Advancement of Behavioral Economics*, University of Cologne, Germany

4. Details of the impact (indicative maximum 750 words)

Types of Impact.

The research has had impact in three of the areas highlighted by MP C.

- i. *Economic, commercial, organizational.* The research was sponsored by PwC and has been incorporated into their consulting practices (as detailed under the next heading). In addition, as a world-leading consulting corporation these practices are also disseminated into the major international clients they serve. According to a PwC Partner: "The research has been presented extensively to clients, non-executive directors, policy-makers, regulators and shareholders. We have run over a dozen dedicated client workshops based around this research" (letter available as evidence). In addition to PwC, their competitor Towers Watson have also used this research in advising FTSE 100 companies "on the design of performance share plans to reward executives in relation to sustained performance . . . across all economic sectors" (past president of CIPD, former director Towers Watson until 2011; evidence letter). They also report that Hermes Fund managers have incorporated findings into their new policy on executive remuneration within the companies in which they invest. Given the truly international scope of the corporations adopting these results, there is indication of global reach.

- ii. *Practitioners and professional services.* Here the focus is on the changes to specific remuneration advisory practices. In the past president of CIPD's evidence letter, reports that the Chartered Institute of Personnel and Development (the UK's professional HR association) "is currently using this research in a review of its current advice to its 135,000 members on executive remuneration practice". A PwC Partner in Australia details how the research has been used in training PwC consultants, representing "an important alternative perspective to current consulting practices"; this team of 60 HR professionals work "with senior business leaders from the largest businesses and government agencies in Australia and Asia Pacific" (evidence letter). Reporting that senior remuneration professionals are using this study as an internal training tool for their corporate remuneration teams.
- iii. *Public policy, law and services.* The study has featured in recent consultation and resulting Impact Assessment and Policy Option documents developed by the UK Department of Business, Innovation and Skills (<http://www.bis.gov.uk/assets/biscore/business-law/docs/i/12-889-improved-transparency-executive-remuneration-impact.pdf>; <http://www.bis.gov.uk/Consultations/directors-pay-revised-remuneration-reporting-regulations>). This resulted in a draft statutory instrument: The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2012.

Reach and Significance.

Its **reach**, as indicated above, has been truly global as a result of its adoption and practice by world-leading consulting companies. As PwC's representative confirms: "Tailored launches of the report have been conducted across the PwC network in the UK, Australia, Switzerland, US, South Africa, India, amongst others and a specialist financial services version has been produced" (evidence letter). Similarly, PwC's representative (Australia) reports that "the study has reached a wide audience from the Australian business community and that it attracted media exposure in Australia's leading business press [Sydney Morning Herald], including publications in Fairfax Media Online and print editions which have unduplicated readership of approximately 2.1 million people" (evidence letter). The work has also been cited three times in the FT. Finally, the evidence from Ms Wright (above) indicates that there is significant reach into the HR community in the UK and beyond with concomitant impact on the organizations served by these professionals.

In terms of **significance**, the widespread adoption of the research findings has been attributed by users to its provision of novel insights, underpinned by a robust research technique and translated into timely and actionable recommendations. This is well summarised by Mr Gosling: "The research has enabled us to draw some very practical conclusions and design recommendations. This is in contrast to much academic research on executive pay. These design recommendations are influencing our consulting work with clients. .. the weight that proper academic research brings has been important in facilitating the 'penny dropping' thereby changing points of view. Through being involved with the research and drawing out its implications we have cemented our position as the leading advisory firm in this area" (evidence letter).

5. Sources to corroborate the impact (indicative maximum of 10 references)

1. PwC London Letter (Provided statement)
2. PwC Australia Letter (Provided statement)
3. Towers Watson/CIPD Letter (Provided statement)

4. <http://www.bis.gov.uk/assets/biscore/business-law/docs/i/12-889-improved-transparency-executive-remuneration-impact.pdf> (note references no 26 & 27).
5. <http://www.bis.gov.uk/Consultations/directors-pay-revised-remuneration-reporting-regulations>