

Institution: The University of Edinburgh
Unit of Assessment: 19 Business and Management Studies
Title of case study: Career Shares as a sensible way to remunerate company executive directors.
<p>1. Summary of the impact</p> <p>Main's research on Career Shares has had an impact both on recent government proposals to change the design of executive pay (BIS, 2013 [5.1]; Kay Report, 2013 [5.2]), as well as on new industry practice in the area. Those benefitting from the work are the shareholders in the UK's publicly traded companies – both direct holders of shares and those who own shares indirectly through pensions or insurance policies. This impact is bringing about radical improvements to the simplicity, transparency and potency of boardroom pay, in a way that encourages long-term decision making and delivers improved long-term returns to investors. The research has informed the practices of UK government agencies (BIS), professional bodies (e.g. Association of British Insurers) and FTSE100 companies (via Towers Watson).</p>
<p>2. Underpinning research</p> <p>The context of the work is the growing disquiet regarding the apparent disconnect between executive reward at the top of the UK's largest companies and the observed performance of those same companies. Both the Government and the business sector itself have been formulating policy and taking initial steps to improve the executive pay process in such a way as to encourage better long-term decision-making and thereby to improve the economic performance of the business sector.</p> <p>Main (employed 1991 onwards) conducted research at the University of Edinburgh throughout the reference period, which highlighted the role of the remuneration committee in designing, approving and monitoring these pay arrangements. The novelty of this work lies in its findings regarding the way that remuneration committees operate. Far from being the objective decision-making bodies so often assumed, they are revealed to be all too human, being susceptible to biases in their decision-making. In a series of research papers between 1988 and 2010, conducted jointly with Professor Charles A. O'Reilly III (University of Stanford) and with Professor James Wade (Emory University), Main has exposed the cognitive biases that arise when remuneration committees set executive pay. Between 2007 and 2011, specific analysis of the pay processes of contemporary UK remuneration committees was undertaken jointly with a team of three Remuneration Consultants at Towers Watson, and exposes an unhealthy tendency to conform to existing practice in the design of executive pay arrangements. Main provided the research design and academic analysis for this work.</p> <p>The extent of the failure of remuneration committees to bring about a robust linkage between the long-term success of their company and the pay of that company's executives is brought out clearly in Main's recent work (supported by an ESRC grant of £301,600 awarded September 2008). This takes as the unit of measurement the executive career (meaning the total years spent by a director on the company's board), as opposed to any particular single year, as is common in other work in the area. By examining the data through the lens of the executive's career, the substantial disconnect between pay and performance becomes clear, and this same approach allows Main to explore the policy alternative of Career Shares.</p> <p>Under the Career Shares arrangement, directors are obliged to retain all shares received from the company by way of payment until such time as they have left the board – in fact, preferably, until some two years after they have retired from the board. Main's work demonstrates how the Career Shares arrangement not only creates a truer linkage between pay and performance, but also ensures that the process of choosing a successor is conducted effectively and with due care. Between 2008 and 2011, this work was carried out jointly with ESRC Research Fellow Dr Rolf Thiess (employed at University of Edinburgh 2008-2010), and more recently has also</p>

involved Dr Ian Gregory-Smith (University of Sheffield), as the work has been extended with larger data sets and more complex econometrics.

3. References to the research

Research grant:

Economic and Social Research Council, RES-062-23-0904 (2008-2011) "Paying for performance: Realized pay and performance in CEO careers, an examination of outcomes". (£301,600). Brian GM Main is sole Principal Investigator.

Research publications:

- 3.1 Main, Brian G.M., O'Reilly, Charles A. III and Wade, James (1995). 'The CEO, the Board of Directors, and Executive Compensation: Economic and Psychological Perspectives', *Industrial and Corporate Change*, Vol. 4, No. 2, pp.293-332. ISSN 0960-6491. (DOI: [10.1093/icc/4.2.293](https://doi.org/10.1093/icc/4.2.293)) Reprinted in *Governance and Executive Compensation*, William Forbes (ed.). London: Edward Elgar Publishing (2010).
- 3.2 Main, Brian G. M., Jackson, Calvin, Pymm, John and Wright, Vicky (2008). 'The Remuneration Committee and Strategic Human Resource Management', *Corporate Governance. An International Review*, Vol.16, No. 3 (May), 2008, pp.225 - 238. ISSN 0964-8410 (DOI: [10.1111/j.1467-8683.2008.00682.x](https://doi.org/10.1111/j.1467-8683.2008.00682.x))
- 3.3 O'Reilly, Charles A. III and Main, Brian G.M. (2010) 'Economic and Psychological Perspectives on CEO Pay: A Review and Synthesis', *Industrial and Corporate Change*, Vol. 19, No.3, 2010, pp. 675-712. ISSN 0960-6491, (DOI: [10.1093/icc/dtp050](https://doi.org/10.1093/icc/dtp050)).
- 3.4 Main, Brian G. M. (2011). 'Executive Pay – A Career Perspective'. *Hume Occasional Paper*, The David Hume Institute, No. 89, June 2011, 52pp. ISBN: 978-1-870482-91-2 (<http://tinyurl.com/o5w9bsn>)
- 3.5 Main, Brian G. M., Thiess, Rolf and Wright, Vicky (2011). 'Do Career Shares Improve CEO Performance? Evidence from FTSE350', *Journal of General Management*, Vol. 36, No. 4 (Summer), pp. 37–51, 2011. ISSN : 0306-3070 and ISSN : 1745-7866, in REF2 (<http://tinyurl.com/pornh79>).

4. Details of the impact

Main's research into the way that companies design executive pay arrangements through remuneration committees and his development of the Career Shares device has featured both in Government policy documents and in developing industry practice. This impact has come about through two primary routes. One is his research relationship with Towers Watson, a leading Human Resources Consultant. The other is through two major government investigations in the area – the 2011-12 BIS investigation of executive remuneration [5.1] and the BIS sponsored 2012-13 Kay Review of UK Equity Markets and Long-Term Decision-Making [5.2].

Main worked closely with Towers Watson between 2005-13, both through joint research projects (where they were able to facilitate access to the elite decision makers who sit on remuneration committees) and in exposing his research ideas to a wide range of end-users. Towers Watson provides advisory services in terms of executive remuneration to a wide range of FTSE350 boards. While pointing to specific individual clients raises issues of confidentiality, the impact of Main's research can be clearly (and publicly) traced through the general position papers (2008-2011) that Towers Watson issues by way of marketing their services [5.3, 5.4, 5.5].

For example, a 2008 Towers Watson paper entitled "Effective Remuneration Committees" [5.3] provides advice on how remuneration committees should best conduct their business. This is based explicitly on a joint research study conducted with Main, which highlights the tendency of remuneration committees to mimic each other in their design of executive pay arrangements. More directly linking to the idea of Career Shares, the Towers Watson 2010 client advice document, "Perspectives: Deferred shares – a partial solution to executive remuneration

alignment" [5.4], is based explicitly on a joint research project with Main on the consequences of forcing deferral of cashing in rewards (in this case the annual bonus).

The most explicit Towers Watson client advice based on Main's work on Career Shares can be found in their 2011 circular, "New ideas to reward sustained performance" [5.5]. This makes extensive use of Main's work on Career Shares, and Towers Watson recommends the arrangement to clients.

Evidence of impact on the thinking and strategies of policy makers and on government policy discussions is available in the government Discussion Paper on Executive Pay that was published in September 2011 by the Department for Business, Innovation & Skills (BIS) [5.1]. This draws heavily on Main's research output (referring to five of his papers), and there is explicit recognition in government circles that Main's work has helped to influence BIS thinking in terms of executive pay [5.1, 5.2].

In a similar vein, the BIS sponsored "Review of UK Equity Markets and Long-Term Decision-Making" by John Kay comes down firmly in favour of the Career Shares arrangement that emerges from Main's work as the best way of arranging long-term incentives, given the imperfect decision making of remuneration committees. The final report, The Kay Review (2012) [5.2] specifically recommends the type of Career Shares arrangement that Main's research has promoted as the best policy reaction to the current dissatisfaction with executive pay. Specifically:

Recommendation 15: "Companies should structure directors' remuneration to relate incentives to sustainable long-term business performance. Long-term performance incentives should be provided only in the form of company shares to be held at least until after the executive has retired from the business."
Kay Report, 2012.

Kay had received firm recommendations along these lines from the likes of Standard Life Investments [5.6] who submitted evidence to the effect:

"We commend to you work done by Professor Brian Main, of the University of Edinburgh. His recent paper entitled 'Executive Pay - a career perspective' contains some very interesting ideas. In particular, with the benefit of supporting evidence, he recommends that executives should be required to hold shares in the company for a period of time after they leave it. This proposal would provide encouragement to executive directors to focus on the long-term development of their business."

Standard Life Investments: Evidence to the Kay Review, 2011 [5.6].

Brian Main engaged with both of these government lines of enquiry through submitting evidence to each of the evidence calls and, at one point, by accepting an invitation to talk to officials at the BIS regarding his research.

Wider impact of Main's work in this area can be seen in general discussion of his ideas in the professional press. This includes: the letters page of the Financial Times; in "Nutshell" (a monthly email to all Chartered Members of the Chartered Institute of Personnel Development, around 60,000 senior practitioners); in featured discussion in a PARC (Performance and Reward Centre) Report (a research centre formed by 50 leading global organisations); and in numerous television and radio interviews.

5. Sources to corroborate the impact

- 5.1. Department for Business Innovation and Skills (2011) "Discussion Paper on Executive Pay": <http://www.bis.gov.uk/assets/biscore/business-law/docs/e/11-1287-executive-remuneration-discussion-paper> (or <http://tinyurl.com/ojhtxcb>)
(Illustrates the extent to which government policy making in the field is influenced by Main's research.)
- 5.2. The Kay Review (2012), "Review of UK Equity Markets and Long-Term Decision-Making. Final Report": https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34732/12-917-kay-review-of-equity-markets-final-report.pdf (or <http://tinyurl.com/ok9s9nv>)
(Illustrates the extent to which government policy making in the field is influenced by Main's research.)
- 5.3. Towers Watson paper entitled "Effective Remuneration Committees": <http://www.watsonwyatt.com/research/pdfs/2008-EU-0553.pdf> or <http://tinyurl.com/numusbx>
(Illustrates the impact of Main's research on professional practice in the field of executive reward.)
- 5.4. Towers Watson 2010 client advice document, "Perspectives: Deferred shares - a partial solution to executive remuneration alignment": <http://www.towerswatson.com/en/Insights/IC-Types/Survey-Research-Results/2010/11/Deferred-shares---a-partial-solution-to-executive-remuneration-alignment> (or <http://tinyurl.com/psj2nxf>)
(Illustrates the impact of Main's research on design of executive reward in professional practice.)
- 5.5. Towers Watson 2011 client advice "New ideas to reward sustained performance"(pp. 4,5,7): <http://www.towerswatson.com/en/Insights/IC-Types/Ad-hoc-Point-of-View/Perspectives/2011/New-ideas-to-reward-sustained-performance> (or <http://tinyurl.com/o5gc4e5>)
Illustrates the impact of Main's research on establishing the Career Shares approach to executive reward in professional practice.)
- 5.6. Standard Life Investments Evidence to the Kay Review: http://uk.standardlifeinvestments.com/CG_Kay_Review_Call_For_Evidence/getLatest.pdf (or <http://tinyurl.com/pj4bn2s>)
(Illustrates that large UK plcs have utilised Main's research in their policy formation.)

Individual users/beneficiaries who could be contacted by the REF team to corroborate claims:

- 5.7. Senior Economist, Towers Watson (Can corroborate claims that Main's research on Career Shares had a direct impact on practice at Towers Watson, a global consultancy firm that exerts a dominant influence in the field of executive reward consultancy in the UK – contact details available from HEI.)
- 5.8. Advisor, Department for Business, Innovation and Skills (Can corroborate the impact that Main's research had on the formulation of policy at the BIS over the last several years when directors' remuneration has been a focus of much BIS policy work and new government regulations in the field ("The Large and Medium-sized Companies and Groups (Amendment) Regulations 2013") – contact details available from HEI.)
- 5.9. Head of Governance, Standard Life Investments (Can corroborate both the influence of Main's research on Career Shares on the thinking of this large UK Company (Standard Life Investments) and, through his position with the Association of British Insurers (ABI), can also corroborate Main's influence on that professional body – contact details available from HEI.)
- 5.10. Hermes Fund Managers (Can corroborate the impact of Main's research on a large investment firm such as Hermes – contact details available from HEI.)