Resourcing remuneration committees: in the dark or on the dark side of professionalisation?

Shortland, S. and Perkins S.J.

This article is © Emerald and permission has been granted for this version to appear here: http://westminsterresearch.westminster.ac.uk/

The final, published version in Employee Relations, DOI:10.1108/ER-01-2022-0006, 2022 is available at:

https://doi.org/10.1108/ER-01-2022-0006

This manuscript version is made available under the CC-BY 4.0 licence
https://creativecommons.org/licenses/by/4.0/

The WestminsterResearch online digital archive at the University of Westminster aims to make the research output of the University available to a wider audience. Copyright and Moral Rights remain with the authors and/or copyright owners.
Resourcing remuneration committees: in the dark or on the dark side of professionalisation?

<table>
<thead>
<tr>
<th>Journal:</th>
<th>Employee Relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manuscript ID</td>
<td>ER-01-2022-0006.R2</td>
</tr>
<tr>
<td>Manuscript Type:</td>
<td>Research Paper</td>
</tr>
<tr>
<td>Keywords:</td>
<td>Corporate governance, Executive pay, Professionalisation, Qualitative methods, Resourcing, Training</td>
</tr>
</tbody>
</table>
Resourcing remuneration committees: in the dark or on the dark side of professionalisation?

Abstract

Purpose

The purpose of this paper is to examine how individuals involved in top pay determination view their role and accountabilities, and capability development needs, theorised under the rubric of professionalisation.

Design/methodology/approach

A qualitative research approach draws upon in-depth interviews with non-executive directors serving on remuneration committees (Remcos), institutional investors, their external advisors, and HR reward experts.

Findings

Regulation has addressed remuneration committee resourcing implications but has yet to consider the ramifications for implied professionalisation requirements for the independent actors involved. Non-executives’ and institutional investors’ professional engagement is potentially hindered by the capability and capacity required for the activities involved and, for NEDs, the reward attached.

Research limitations/implications

Further research is needed to evaluate professionalisation initiatives by top pay regulators and assess their impact on executive remuneration in practice.

Practical implications

Thorough induction, tailored training, and continuous professional development are crucial to quality executive remuneration decision-taking; organisational and regulatory attention to these issues is required along with widening NED selection and recognition criteria.
Originality/value

This paper provides new knowledge on how top pay decision-takers view their role, the competencies required, and necessary professional development needed to achieve organisational competitive advantage. It reveals a potential dark side to top pay decision-taker professionalisation if individuals repurpose themselves as occupants of part-time executive roles undermining corporate executives.

Keywords: Corporate governance; Executive pay; Professionalisation; Qualitative methods; Resourcing; Training.

Article classification: Research article
Introduction

Remuneration committees (Remcos) are formally constituted committees of company boards of directors. They are resourced exclusively from among a board’s part-time external or non-executive office holders (Ogden and Watson, 2012). The functions applicable to the non-executive directors (NEDs) serving as Remco members have been transformed from being “a handy sinecure with which to end one’s career” (Keogh, 2020, p.0). Instead, Remco NEDs have become “key agents in … choosing a remuneration package and arranging that it is calibrated in a way that ensures it motivates [full-time executive board members] towards those decisions and actions necessary to best deliver the company’s chosen strategy” (Main et al., 2008, p.227). The Remco’s remit extends also to influence pay governance in respect of other senior employees, including scrutiny of overall corporate reward policies (Perkins and Shortland, 2022). This is mindful of the need to account to company shareholders not only in respect of the pay and conditions of executive directors, employed full-time as well as being board level office holders, but their justification in relation to comparative reward levels across the organisational hierarchy (Aguinis et al., 2018).

Most of the academic literature under the rubric of executive pay adopts a quantitative methodology. Walsh et al. (2018) point to over a quarter of a million studies informed by statistical mining of public databases. Yet context-free, statistically driven analyses have been limited in their capacity to explain Remco processes (Edmans and Gabaix, 2016; Edmans et al., 2017; Frydman and Jenter, 2010; Padia and Callaghan, 2020). Considering their interactive nature as major corporate institutions, it may be argued that analysing Remcos needs to acknowledge their social embeddedness (Hitt and Haynes, 2018; Perkins and Hendry, 2005; Wiseman and Faqihi, 2018). We take our cue from calls by Main et al. (2008), Ogden and Watson (2012), and in this journal Maloa (2018) for more research designed to obtain qualitative empirical insights into the character of Remcos. In this way it may be
possible to surface antecedents to executive pay determination affected by Remco members’ orientation to their roles (Zattoni and Cuomo, 2010) as perceived by Remco members themselves, by the HR/remuneration specialists who advise them (Goh and Gupta, 2010), and by representatives of the institutional investment/corporate governance community mandated to sanction the results of their deliberations (Janakiraman et al., 2010).

Amateurism in work settings may be judged detrimental to securing effective employment relations – in particular, at the pinnacle of organisations where controversial matters, including the pay of individuals employed as top executives, are determined. The UK regulatory body, the Financial Reporting Council (FRC, 2018a, 2020), positions NEDs as central to effective corporate governance, under the scrutiny of institutional investors who manage 90% of UK stock market listed share portfolios (Çelik and Isaksson, 2014). However, Remcos are populated not by professionally qualified experts but by generalists (Demirbas and Yukhanev, 2011) and the Say-on-Pay legislation introduced initially in the UK in 2013, empowers institutional investors in public companies to block unpopular Remco outcomes (Lozano-Reina and Sánchez-Marín, 2020; Pallavi, 2013; Stathopoulos and Voulgaris, 2016). Codification about how to behave (or explain any normative deviance) in relation to Remco decision-taking, under the rubric of internal governance (FRC, 2018a) and external stewardship (FRC, 2020) has standardised what previously emerged from the actions of prevailing managerial interests on a company-by-company basis (Berle and Means, 1932; Pfeffer and Salanick, 1977).

Various government and independent reviews/reports have made recommendations on recruiting and preparing board decision-takers for their roles (BEIS, 2017; Higgs, 2003; Tyson, 2003) yet public disquiet about top pay decision-taking regularly flows from salacious media headlines. In the academic literature ongoing concern remains, albeit sometimes “overlooked, ignored, or suppressed” (Linstead et al., 2014, p.166) that thinking informing
regulatory intervention in structures to govern executive pay risks introducing a dark side—
namely, evidence of unintended, and sometimes disastrous, consequences of reward
management (Wright, 2019) being overshadowed by propositions, for example, about the
motivational power of pay and its espoused consequences for organisational outcomes. That
leads us to ask what do the individuals involved in determining top pay say about the
accountabilities placed upon them, and for capabilities to be systematically developed to meet
these (Colarelli and Montei, 1996)? Also, how might a shift from amateur to professional
status (Edwards, 2014) be theorised to improve outcomes? Our analysis, set within the
context of debates surrounding professionalisation (e.g. Baluch and Ridder, 2020; Edwards,
2014; Lynch et al., 2004; Namazi, 2018; Parsons, 1939), is informed by qualitative narrative
accounts from interviewing NEDs and institutional investors in UK-based FTSE-100
companies, together with their external advisors and senior HR reward practitioners. In the
next section we discuss conceptualisation and theoretical perspectives on the variables under
study i.e., approaches to specifying Remco accountabilities and make-up, and perspectives on
professionalisation.

Remco roles, responsibilities and resourcing

How Remcos are resourced is a relevant issue because the very nature of resourcing activity
is paramount to organisational success. As Taylor (2019) explains, resourcing covers a broad
spectrum of key employer objectives, including staffing (recruitment and selection),
performance (building upon aspects such as training and development, and reward), change
management, administration, well-being, and reputation building. The governance of
organisations is no less subject to the need for high standards of resourcing activity than other
areas of people management.

Recommended standards for the governance of corporations began to be codified
following the Cadbury enquiry (Cadbury, 1992). Remcos comprised exclusively of NEDs
were to provide independent oversight of executive directors’ remuneration. However, academic criticism from the outset has focused in particular on the lack of codified detail and related sanctions to enable enforcement of provisions intended to correct delinquent boardroom behaviour (Boyd, 1996). The foundational document was, for example, largely silent on scoping the role of NEDs, and their recruitment and development. A decade later the Higgs Review (Higgs, 2003) and the complementary Tyson Report (Tyson, 2003) set out to remedy this lacuna. Recommendations focused on expected NED roles and what the organisation should do to ensure they understand and receive information to discharge their duties (Higgs, 2003).

More active engagement by institutional shareholders with companies in which they invest has been an expectation under the corporate governance rubric since the Myners (2001) review. At its core, investors in publicly listed companies are expected to ensure boards of directors have enabled and enacted an effective system of corporate governance and, in reporting to shareholders, that companies provide the information to help them assess the performance of directors in meeting their statutory obligation to promote the success of the company. Higgs (2003) argued that investors should question NEDs on corporate governance scrutiny and how results are acted upon. Guidelines to enhance NED effectiveness, and their recruitment and development, have been incorporated in the UK’s Corporate Governance Code (FRC, 2018a) and Stewardship Code (FRC, 2020).

Major constraints on the recruitment of NEDs have been identified as continued reliance on previous management experience as the defining appointment criterion, the commitment needed for the roles, and remuneration attached to them (Li and Wearing, 2004). Taking these into account, recommendations for more rigorous, formalised and transparent processes for identifying and accrediting NEDs included appointments from international sources and size-compatible, non-commercial organisations. The emphasis was on tailoring
the approach to the company character/needs and board members being able to work together effectively (Tyson, 2003).

In its description of the role of a NED, the latest regulatory guidance (FRC, 2018b, p.22) makes explicit that NEDs “on appointment, devote time to a comprehensive, formal and tailored induction that should extend beyond the boardroom”. The process may involve spending time with an executive board member to acquire an understanding of the main areas of business activity. The induction should take them into the business to become familiar with organisational culture and operations, and to gain insight into the experience and concerns of the workforce.

Added to these internal interactions, the FRC’s (2018b) guidance is for NEDs to engage with shareholders and other key stakeholders; it notes NEDs must have sufficient time available to discharge such responsibilities. Assessing the demands of their portfolios/commitments carefully before agreeing to join a board, NEDs are expected to devote time to “developing and refreshing their knowledge and skills … to make a positive contribution to the board and generate the respect of the other directors” (FRC, 2018b, p.22). To some extent this speaks to concern in academic analysis that progressive corporate governance checks and balances (Ooi et al., 2022) must be sensitive to the indeterminacy of interaction between directors. Unless properly enacted and resourced, there is a risk of codified principles guiding NEDs’ roles and behaviours simply “opening the door to more managerial discretion” (Valeau, 2015, p.1908). To that end guidance accompanying the UK Corporate Governance Code also calls on NEDs to insist that high-quality information reaches them well in advance of board meetings, to enable them to contribute to informed debate and challenge (FRC, 2018b).

It has been institutionalised into regulatory guidance that, to assist NEDs in respect of adhering to these processes, they should have access to the Company Secretary to connect
with independent professional advice at the company’s expense where they judge it necessary to discharge their responsibilities. The FRC (2018b, p.7) makes clear that this applies not only to accessing advice from external sources but also to internal data: “Boards can draw on existing internal capabilities and information to shape their monitoring efforts [where] Human Resources, internal audit, risk and compliance all have a role to play … [to] offer expert analysis and advice to the board”. These normative corporate governance developments may be seen as according professional status to these social actors (Edwards, 2014). Consistent with the notion that “the professions” are socially constructed (Carter and Crowther, 2000, p.27), professionalisation may be interpreted as taking steps to become more business-like as the organisational environment changes (Baluch and Ridder, 2020).

**Theorisation of top pay decision-takers’ professionalisation**

Analysis of the ways in which the social actors interpret top pay decision-takers’ accountabilities and the need for development to discharge them may be approached theoretically under the rubric of professionalisation. Amateurs have been described as well-intentioned with an interest in a particular field (Cole, 1973). Tracing the ideas back to their classical roots in industrial Britain, there has been “a high regard for the amateur and a deep suspicion of the professional” (Bruggen, 1976, p.84). Transitions including the shift from amateur to professional have often been approached as negative – for example classic stages of bereavement and grieving (Kubler-Ross, 1969). But more recent conceptions have perceived positives as well as scope for negative consequences (Lavallee, 2000). One aspect of transitioning from amateur to professional is being recognised as such. The distinguishing feature of the professional is having been educated and trained with the specific goal of securing a warrant to practise their particular discipline, judged by length of experience, reputation, and perceived mastery of knowledge and skill (Darnell, 1998; Ericsson, 2008). Losses, such as the loss of sinecure status for the NED, may require adaptation but potentially
open up new challenges and opportunities (Swain, 1991). The expectation is that with professionalisation comes “qualities, expertise and standards of practice … worth paying for” (Edwards, 2014, p.411). In the classic exposition, the functioning of society is, to a considerable extent, dependent on “the smooth functioning of the professions” (Parsons, 1939, p.457). In this construction, professional characteristics demonstrate practices that distinguish role occupants from others in a market economy, which are applied in an independent, value-free manner (e.g. in the top pay context, judgement of executives to inform their remuneration is expected to reflect performance over character). Practices are intended to be functionally specific, well-informed, and beneficial to society rather than particular interests (Lynch et al., 2004).

Theoretically, attention is needed to the context of transition between amateur and professional, understood as a dynamic, interactive process of the individual understanding and negotiating the demands of the new context (Ashford and Taylor, 1990), and their perception of it, as the transition is enacted over time (Schlossberg, 1981). Attention refocuses not so much on the change itself but on the perceptions of those undergoing the transition, including an in-career transition (Wyllemana et al., 2004) such as that applicable to Remco members coming to terms with enhanced expectations on their role or being affected by it. As the amateur transitions to professional they may be able to shift their attention from preoccupation with the change itself to the integration of their new role into everyday life with the capacity to navigate the process being, in turn, a function of the individual’s resources and deficits, including the quality of support network, alongside the degree of difference and similarity between the pre- and post-transition environments. Examples are given in the sports literature of the importance analytically of transitions being highly specific to their disciplinary context, as they unfold gradually interacting with a role-player’s characteristics influencing the degree to which the transition is accommodated in
practice (Parker, 1994). There are lessons from these considerations for theorising the
transition from amateur to professional as specified in corporate governance codes for
members of Remcos.

A critical construction of professionalisation suggests that the process is, by design, a
form of restrictive practice that seeks social closure over a particular domain, thereby
excluding others from access to legitimate decision-taking roles. Namazi (2018, p.67)
describes this as the introduction of “guild laws” (e.g., structuring relations between
corporate leaders and the investment community). The social construction of corporate
governance by “City grandees” (Perkins, 2017, p.80) may thus reflect professionalisation,
vesting only those accredited by dominant coalitions (Bowen, 2015). The classical view of
the extended socialisation (training) period associated with professionalisation contrasts with
gate-keeping or “restrictive practices” (Edwards, 2014, p.409).

Within the rubric of institutional theorising (Scott, 1995) organisational dynamics are
so arranged as to confer legitimacy on particular forms of agency. Institutions such as
professional bodies as well as the state form recurring, stable human behavioural patterns
which are valued as legitimate, in turn, serving as collections of rules and routines structuring
relations between social roles and contexts (March and Olsen, 1989). Organisational forms
such as boards and their Remcos are expected to comply with (or in the case of corporate
governance regulation to explain any departure from) institutions such as corporate
governance codes to gain external support for future development (Ooi et al., 2022).

Corporate legitimacy can be formed through what DiMaggio and Powell (1983) term
coercive isomorphism, i.e., a top-down rules-based regime; mimetic processes, i.e., self-
regulatory adoption of perceived best practice against peer benchmarks; and normative
pressures. Normative isomorphism (DiMaggio and Powell, 1983) is another function
attributed to professionalisation whereby norms and values are disseminated between
nominally competing organisations intended to legitimise their practices – as in the case of Remcos transferring best practice (Marchington and Grugulis, 2000) to meet regulatory demands. Hence, an impetus to professionalise Remco roles may be inferred less in the classic sense as a “collective struggle of the members of an occupation to define the conditions and methods of their work” but more a “compromise with … regulators” (DiMaggio and Powell, 1983, p.152). This line of reasoning is consistent with academic debate on professionalisation focusing as it does on “the extent of agency, autonomy and accountability in the practices of the professional groups concerned” (Edwards, 2014, p.209).

One of the criticisms over the course of regulatory development associated with top pay decision-taker roles has been the narrowness of the pools from which individuals to fill these roles are drawn. DiMaggio and Powell (1983, p.153) anticipate such criticism under the rubric of normative isomorphism, whereby professionalised career tracks are so closely guarded that “individuals that make it to the top are virtually indistinguishable”.

Applying professionalisation heuristically to shed light on 30 years’ worth of espoused regulatory intent to bring about improvement in top pay decision-taking interacting with narrative accounts given by those with front-line accountability for this, leads us to focus on a battle suggested in the theoretical literature (Carter and Crowther, 2000) between objective functional interpretation (Lynch et al., 2004) and self-interested practice homogeneity (Edwards, 2014). Linking these phenomena, we examine the resourcing and development of top pay decision-takers to reveal the level of alignment between espoused and enacted practice. The foregoing considerations, informed by regulatory codes and sources in relevant academic literature, lead us to focus our empirical analysis as follows:

**RQ1**: How do decision-takers and advisors in large companies articulate the responsibilities required to discharge their roles overseeing top pay governance,
mindful of the need to weigh both espoused and enacted forms where the latter may include dark, or unanticipated, consequences?

**RQ2**: How do top pay decision-takers and advisors view processes to resource more professionalised Remcos so as to be compliant with the latest codified standards, including Remco members’ recruitment, training and development, and reward?

**Method**

Top pay decision-takers are typically high profile individuals holding a number of boardroom appointments; they frequently input into policy determination and are described as “network stars” through their institutional connections (Pettigrew, 1992, p.178). Gaining access is challenging to academic researchers with cold-calling to seek interviews likely to be rebuffed; access to elite members is best achieved through other similarly placed individuals through personal recommendations following an initial connection (Pettigrew and McNulty, 1995). Purposive sampling was employed to select initial research participants and snowball sampling for subsequent respondents. Although using a snowball methodology can lead to bias and potentially to an unrepresentative sample (Bryman and Bell, 2007), it did present the advantage of facilitating researcher access to board level individuals with insider knowledge of top pay decision-taking. Following a snowball approach (beginning with Lord Browne who was approached at a public event and agreed to be interviewed), we accessed eight NEDs, three institutional investors and three external advisors involved in Remco decision-taking. We also approached four human resource (HR) “network stars” (Pettigrew, 1992, p.178) reflecting their expertise and connections in board level reward. We conducted semi-structured interviews with these 18 participants. As many of the decision-takers had held numerous top pay determination roles, they were asked to classify their Remco activity at the time of interview (Table I). In addition, one of the researchers facilitated three CIPD reward focus groups, which enabled us to garner the views of 10 further reward specialists (Table II).
We were specifically given permission to audio-record, transcribe, and list the names of all interviewees and focus group participants, but not to cite them directly.

Insert Table I here

Insert Table II here

Interviews averaged 44 minutes (ranging from 25-68 minutes). They were conducted face-to-face, by telephone, or on Zoom according to the interviewees’ schedules and preferences although latterly remotely due to Covid-19. The focus groups were conducted via video-conferencing, again due to the pandemic. It would have been preferable to have employed a similar data collection approach for all participants, ideally using face-to-face, one-on-one interviews, to elicit the greater in-depth responses that can flow from personal interactions (such as following up on body language cues). However, we recognised that our high profile participants had made time for us and thus we had to respect their busy schedules by using telephone and video calls as they preferred. Collecting data during the pandemic posed a unique problem, again requiring some compromise on our part. For example, we recognised that using video-conference focus group data may well have reduced the spread of views and depth of information that might have been feasible to collect had all participants been interviewed one-on-one, face-to-face. Nonetheless, given the pandemic restrictions, we were fortunate to be able to access these data at all and we believed these proved valuable in providing us with additional HR reward specialist viewpoints supporting the HR interviews. Although there were some differences in our data collection methods, we did use a similar approach for our data analysis as explained below.

The interviews and focus groups began with a scene-setting discussion of current key executive reward issues. Roles and responsibilities of top pay decision-takers and their advisors were then explored with all participants being asked to comment on their own contributions as well as those of other key players (RQ1). Next, questions were posed
regarding resourcing, specifically to examine the recruitment, training and development, and
reward aspects of undertaking a top pay decision-taking role (RQ2).

A two-stage thematic analysis was conducted. Transcripts were analysed manually in
MS Word using coloured bars and margin notes, followed up with the use of NVivo to
categorise quotes under thematic nodes (which could be shared in MS Word format); by
using both a manual approach and a software tool, this helped to organise and sense check the
materials. The dual approach also assisted the researchers to share data easily; working
remotely during the pandemic with only one having access to NVivo could have been a major
limitation on the highly iterative process needed to ensure our ability to revise, explain,
classify, connect and agree our themes. Several rounds of coding were required to identify
patterns within the data (Braun and Clarke, 2006) and expand and collapse the sub-themes as
necessary to create a template analysis (King, 2004) best aligned with the research questions.
Once the nodes were finalised and labelled they were given definitions (Table III) and the
series of text quotes was tabulated to bring quotes relating to each theme and sub-theme into
one document. The number of sources citing particular sub-themes and references made to
each were recorded; this assisted in selecting representative quotations.

Findings

Our findings are presented to address our participants’ views on decision-takers’
responsibilities (RQ1) and on the resourcing (recruitment, training and development, and
reward) process (RQ2). NEDs’ quotations are tagged as NED#, institutional investors’ as
InsI#, advisors’ as Adv#, and HR reward specialists as HR# with numbering included to
differentiate between the comments from different participants and show the spread of views.
Numbering does NOT correspond to the participants’ ordering in Tables 1 and 2.

NED/institutional investor roles and responsibilities
NEDs reported that they held delegated responsibility for determining and applying remuneration policy in respect of the company chair, executive directors and senior management, to ensure alignment of incentives with desired culture, and to review workforce remuneration. They reported exercising independent judgement when evaluating advice from external advisors who offered externally benchmarked evidence and interpretation, as well as in response to views from internal HR specialists who supported Remco work. Institutional investors reported that while they were not expected to attend Remco meetings, they engaged actively with the companies they invested in, interacting with board members, including at least the lead independent director or relevant committee chair in sufficient detail to inform investors’ voting strategies.

There was a very strong sense in respondent narratives that corporate governance work had become more demanding since regulatory codification, especially those involving oversight of sectors where there have been major controversies:

“Expectations of non-executive directors have changed hugely … and that is most marked in financial services … for understandable reasons. Bank boards used to be almost entirely decorative, and they were not expected to rock boats. And the boats were regarded as extremely stable anyway. And that all turned out to be wrong.”

(NED#7)

Leading on from perceived reluctance to defend what might be unpopular decisions in setting and interpreting Remco policies, NEDs spoke of the risk of using normative corporate governance principles as a reputation-defending shield. They warned that such an approach might undermine achievement of specifically located corporate purposes through the tendency to conform to the average, rather than have to justify adoption of bespoke decision-taking. This raised the issue of interpersonal relations: the social nature of Remco and wider
board activity led to a sense of confidence in a common understanding between members and
the committee chair, as well as with the company CEO:

“A huge amount occurred outside of the main meeting … I connected with the chair
of the remuneration committee to do a lot of prep beforehand … I spent time with all
of the members … to try to understand their perspective and any considerations.”

(NED#1)

NEDs reported that this influenced willingness to defend top pay decisions if non-compliant
with codified corporate governance mantra rather than needing to retreat behind the rhetoric
of formulaic constructions:

“I think the debate is there … It certainly drives my sense of a role even though you’re
working within a system, you’ve got to make sense of you’re working with people
and you’ve got to keep them happy.” (NED#4)

Institutional investors also commented on how both they and representatives of the
companies in which they held financial stakes might benefit from a greater preparedness to
create the means for more holistic exchanges about processes and outcomes within the
business. Emphasis was on prioritising interactions: fewer higher quality exchanges on top
pay rather than more superficial, generalised communications. They placed value on time to
build necessary levels of confidence and trust in the interpersonal processes involved:

“You can’t have a quality dialogue when you’re talking to countless numbers of
companies. It has to be prioritised and done properly … rather than simply going
through the motions and ticking a few boxes.” (InsI#3)

NEDs, institutional investors, advisors and HR all reported on significant increases in
the amount of time decision-takers needed to give to their roles, both in terms of collective
board responsibility and at individual committee membership level:
“The discussions take a very long time. Because the committee members do know that they’re in the firing line. At the AGM, it’s the chairman of committees but also remuneration committee members who ‘get it’ – literally sometimes.” (NED#2)

This gave some pause for thought as to whether the perceived positives of engaging in these roles (“most people who join boards will think it’s an honour, it’s interesting” – NED#2) was sufficiently remunerated (“coming back to a capitalist model, you’re not paid enough to go through that hassle” – NED#4); for others this called into question the attraction of corporate governance participation altogether:

“Twenty years ago, there were guys that retire, then there’s this cushy thing that you do … it keeps your hand in, you keep living the good life ... Those days are gone. The demands are higher, the reputation stakes are much higher. So that worries a lot of people now.” (Adv#2)

Institutional investors not only recognised the workload for NEDs but also identified logistical challenges associated with the feasibility of their own active engagement to the extent called for given the need to resource this across their firm’s investment portfolio:

“It would be from start to finish looking at every company mandate in about 300 companies.” (InsI#2)

Institutional investors expressed frustration when they perceived company representatives over-frequently revisiting the details of top pay policies:

“Companies spend an inordinate amount of time talking to their investors about rem stuff. It doesn’t need to be that way … If it’s well-written and well-structured, then it doesn’t require that continuous dialogue because companies are paranoid about being voted down.” (InsI #3)
Notwithstanding the articulated problems associated with the top pay decision-taking role, the increased scrutiny and reputational consequences had motivated NEDs especially, but also institutional investors, to get the fullest grasp of their responsibilities:

“The endgame of this is … you’re going to have to recognise it’s a professional role… not a place for us great and good … doing it for intellectual interest alone.”

(NED#4)

While institutional investors were exercised by overriding pressure to deliver financial value to clients in the short run, they also spoke of the need to act on stakeholder expectations that increasingly involved oversight of sustainable performance. Consequently, there appeared to be interest in dialogue about corporate strategy articulated by a variety of corporate voices. Reference was made to wanting sufficient information, where possible with relevant metrics, to inform judgements about whether - based on their own benchmarks - corporate culture impacting on top pay determination felt right.

Advisors commented that, over recent years, greater formality in managing Remco activities was visible; committee members had shown greater engagement with the detail of what informed policy, driven by external scrutiny and demands to explain. Notwithstanding this, there was a question of decision-takers’ capacity to fulfil corporate governance functions given the complexity of the information to be assimilated, the part-time nature of their role, the diverse organisational landscape, and the pressure to arrive at informed outcomes that the scrutineers could communicate and defend across stakeholders.

*Remco resourcing (recruitment, training and development, and reward)*

NEDs placed emphasis on recruitment activity to ensure independence. Guarding against factionalism was viewed as paramount – all must represent corporate interests, not a sub-set of interests within an organisation. NEDs expressed the view that Remco chairs should be willing to defend customisation over standardisation, even when this might meet resistance
from within, based on a detailed grip of evidence. In making these observations there was a
sense that appointment criteria needed to be judged comparatively across companies’ various
international locations, so appointees might vary in character as a result. HR respondents also
commented that NEDs must be sensitised to the ways stakeholders both domestically and
internationally perceived top pay determination arenas and outcomes.

Respondents cited efforts to encourage top pay decision-takers’ professionalism and
the kinds of initiatives needed to support their development. These included paying attention
to NED induction processes to encourage reflection on where they may have observed others’
practice, with some intensive training considered as a starting point. They recognised that, by
definition, top pay decision-takers were not specialists in the field. Mentoring was also
suggested as this could help situate governance principles within particular contexts:

“They’re not remuneration consultants … and so … when somebody is appointed
there needs to be … clearly communicated, the particular challenges that have been
faced in the past by that particular company … what I have seen work is …
mentoring.” (InsI#2)

HR advisors placed a particular onus on board chairs to oversee and guide the development
of NEDs but raised serious doubts about the time given to this:

“I think, a key role of the chairman is to ensure … [NEDs] keep up-to-date not only
with the legislation but with trends, practices and ways of thinking … Clearly there
will be terms of reference … they will sign up to keeping themselves abreast with
training and development and all the rest of it. Cynically, I question just how much of
that really gets done.” (HR#4)

Institutional investors focused attention on implications for NEDs from the governing
legislation. Taking up the concerns raised by HR, they warned that more needed to be done to
professionalise Remcos given increasing top pay politicisation.
Views were mixed on recognising and rewarding NEDs. For some respondents, the increased accountability and scrutiny associated with board-level work had become an impediment to resourcing. Talented individuals might find other, less personally-risky avenues for paid activity. Others noted that professionalisation carried with it questions about concomitant remuneration compared with the status recognition traditionally applied to the NED role. The countervailing view was that although acknowledging the serious nature of corporate governance roles, ambition among individuals to be generously compensated might count against their candidature:

“They need to be fairly remunerated but … to carp on about the level of remuneration makes it hard for them to be able to speak without potential conflict on those that they are actually effectively having a role in their pay decision-making.” (NED#1)

Advisors reported that the expanding nature of top pay decision-taker roles led to some NEDs believing that this should lead to higher pay. However, this role expansion was questioned as potentially unjustifiable, especially if it resulted in non-executive activity crossing the line into the executive sphere:

“There’s been a big leap of non-executives. I think that they need to interfere less ... do what they are paid to do, no more; because non-executives tend to expand the role into areas that are interesting.” (Adv#3)

Finally, for those NEDs actively involved in Remco roles, the predominant view was of gaining reward from the developmental aspects of being placed in an arm’s-length role beyond executive management activities, while seeking to mitigate the tension between contemporary regulatory and publicity environments:

“You need a cadre of people who are going to do this really well, put the time in … The pay is not unreasonable … you need people for whom this matters.” (NED#4)
Discussion

Our findings suggest that external regulations have prompted reflection among those involved in top pay determination about what decision-takers’ roles demand and how they should be resourced. The emphasis is on capacity to interpret advice and sift through complex alternatives. This takes them beyond their core capabilities to bring about top pay outcomes that meet the test of reflecting corporate performance while being broadly consistent with principles applied to determine pay across the company’s workforce. Duties and demands are thus no longer simply decorative, resourced by drawing on “on the old-boys network” (Keogh, 2020, p.0). Instead top pay “network stars” (Pettigrew, 1992, p.178) perceive that professionalisation is crucial given significantly increased levels of accountability. Rather than view top pay decision-taker professionalisation solely as seeking to enhance value-neutral effectiveness for the benefit of society, more critically the process of applying “guild laws” (Namazi, 2018, p.67) can be interpreted as a means of concentrating and retaining power among the elite (Lynch et al., 2004).

Aspiring to be more business-like, while accommodating changing internal and external corporate environments (Baluch and Ridder, 2020), and interacting with the complexity of top pay considerations, means a significant capacity burden for decision-takers. One consequence is the risk that, while seeking to demonstrate independence, decision-takers may be tempted to favour formulaic benchmark compliance rather than unique business circumstances. Such a course of action is motivated by a number of factors. These include the concern of Remco members and institutional investors alike to avoid becoming the focus of criticism should choosing business specific pay-performance indicators be adversely judged, as well as social pressures to work with others and retain good working relations balanced against tough decisions that might be unpopular (Pallavi, 2013). An easier option is to adopt consultant-derived benchmarks, interpreting
professionalism as normative isomorphism and regulatory compromise (DiMaggio and Powell, 1983). To counter this, emphasis is placed on Remco chairs being willing to take a stand (even if unpopular) if this expresses the chosen path, thereby striking a delicate balance between investor expectations of NEDs to prioritise what they report and to be politically tuned-in to contemporary demands.

Regulation has emphasised the need for organisations to ensure all decision-takers understand their role and receive access to information to enable them to discharge their duties independently mindful of scope for conflict with other stakeholders (Higgs, 2003). It has also suggested balancing development of hard-edged decision-taking capability with interpersonal skills and trust (Tyson, 2003). This results in both NED resourcing and professionalisation implications. NED roles are part-time, meaning that decision-taking requires aspects of corporate oversight that raise unique difficulties in effective regime assurance. While non-specialist decision-takers may be able - and, indeed, are expected - to obtain plentiful advice so that their decisions are not made in the dark, they risk being blinded by complex alternatives that require time-consuming context-specific interpretation, prior to correct evaluation and having confidence in the outcomes. Remco chairs and other NEDs are held to account publicly with reputational consequences – this further amplifies the twin problems of attracting individuals to these roles as well as the risk of decision-takers shielding behind formulae and downplaying the search for bespoke solutions, falling victim to normative isomorphism (DiMaggio and Powell, 1983). In practice, for NEDs, there is reflection as to whether the risks and pressures of the role outweigh the rewards given the professionalisation demanded.

Institutional investors are tasked with ensuring a system of corporate governance is in place and that companies provide investors with information sufficient to assess compliance (FRC, 2020). In taking steps to ensure these professionalising expectations are met, quality of
dialogue associated with determining and validating top pay is of particular concern if they are to engage in depth across an investment portfolio, given the sheer volume of potential interactions with corporate decision-takers that would be necessary. Once again, the issue is a function of capacity to comply with the letter of regulatory expectations that advocate bringing the stakeholders together to agree approaches and metrics (Tyson, 2003). To mitigate the workload, institutional investors call for corporate representatives to prioritise communications, to focus on policy and being judged on its application, not repeatedly rehearse application minutiae. This practical assessment suggests further articulation of what a professionalised top pay decision-taker role involves: presenting the big picture, exercising judgement on policy application, and being held accountable against agreed metrics. By engaging with prioritised communications, institutional investors report being better able to enhance their own professional capacity to judge levels of reward as being appropriate so that they, in turn, can meet their client stewardship accountabilities (FRC, 2020). Here, however, significant questions remain. As Padia and Callaghan (2020) explain, econometric research shows that top pay and performance cannot be reconciled by statistical correlations; instead, the recurrent indicator of pay packet has been company size. Notwithstanding this, analysis has suggested that, if properly contextualised over time, there could be a CEO pay-shareholder value trend (Edmans and Gabaix, 2016) if decision-takers examine the micro-level and factor-in such complexity. Of course, decision-takers must develop the professional competence to sift through data, make judgements upon it, and then defend bespoke outcomes.

Corporate governance prescriptions have argued in favour of moving beyond characteristics traditionally relied on in the appointment of individuals to decide and validate top pay outcomes (Li and Wearing, 2004). Prior management experience in commercial settings should be widened to include those with public and third sector experience and
encompassing more international settings consistent with a company’s theatres of operation (Tyson, 2003). While agreeing with this directive and acknowledging the need to challenge professional homogeneity and welcome alternative perspectives, respondents worry about factionalism developing from inviting a diversity of views and backgrounds to the table, in an echo of the more critically-oriented perspectives on professionalisation (e.g. Edwards, 2014; Namazi, 2018). Tensions also surface under the rubric of reward: if the candidate pool is widened, it may attract those for whom big-firm NED fees are significant against their other income, compromising independence. For the previously well-remunerated ex-executives, conventional NED fees benchmarked against past earning power may prove unattractive given the reputational hassle and time commitment. Overall though, our respondents regard NED rewards as fair, emphasising duty. That said, a critical interpretation may view this as a professionalising social closure mechanism (Lynch et al., 2004) keeping NED positions in the family, acting against Remco heterogeneity.

Turning to developmental aspects, our findings reveal recognition of the need for non-specialists to have access to ongoing mentoring, consistent with norms of professional apprenticeships, to build on a solid induction incorporating corporate history if they are to broaden their capacity to weigh evidence mindful of culture (FRC, 2018a). While company chairs are expected to oversee this and individuals for their part must invest time to develop the competence required for the decision-taking challenge, consistent with functionalist expectations of knowledgeable professionals (Baluch and Ridder, 2020), some cynicism exists as to the extent to which this actually occurs as reflexive development rather than doing only what is necessary for self-preservation.

There are a number of considerations that may apply to organisational willingness and ability to invest corporate resources in professionalisation of top pay decision-takers: to train and develop them and the quality of interventions offered. These include organisational size
and the extent to which training and development meet pre-specified needs (Colarelli and Montei, 1996). Large establishments such as stock market listed companies are more likely to be receptive to state-of-the-art professional development methods and able to assure higher quality because they can access more training expertise and resources. Colarelli and Montei (1996) suggest propensity to invest in capacity development may be influenced by workforce turnover levels: investment in the capacity-building of transient learners may have limited corporate pay-back, although the argument may be less significant in the case of NEDs whose tenure is generally fixed-term. In addition, Colarelli and Montei (1996) cite the influence of external issues: if workforce members are developed to be more effective than their competitors’, then the argument for investment in systematic professional training and development strengthens. Extended into the arena of corporate governance, effective compliance outcomes may be predicted to burnish corporate reputation while deficiencies risk staining it. Increasingly complex arrays of information underpinning Remco decision-taking under intense external scrutiny suggest benefits from investing in training and developing NEDs. Further, as change proceeds rapidly, there is an advantage to updating learners, possibly requiring maintenance of CPD logs of the kind professional accrediting bodies demand for ongoing license to practise.

Notwithstanding these points, there could be a potential dark side to top pay decision-taker professionalisation. Not only in seeking to control via guild rules (Namazi, 2018) along with individuals seeking to limit personal risk, top pay decision-takers may also be tempted to cross lines to repurpose themselves as occupants of part-time executive roles undermining corporate executives (Demirbas and Yukhamaev, 2011). Eventually the whole basis of independent governance could be jeopardised and even undermined by NED mission creep; and, if investors become too controlling in the indicators applied rather than just sanctioning
general health of investment returns, this may hamper organisations in developing
competitive distinctiveness. Professionalisation in top pay governance may eat its own tail.

Limitations and future research

This study drew upon the views of a relatively small sample of top pay decision-takers,
sourced via a snowball methodology. While we acknowledge the potential bias in viewpoints
that this might bring, we justify our approach through our participants’ high profiles, multiple
roles and the inter-connections they hold within corporate and regulatory arenas.
Notwithstanding this, it was notable that our methodology resulted in access to very few
women who held top pay decision-taking and external advisory roles (despite our respondents
acknowledging potential benefits of Remco diversity). Further research might attempt to
access the views of more female NEDs, institutional investors and external advisors as well
as input from other protected characteristic groups (see Equality Act, 2010) to explore more
diverse views on top pay decision-taking. Our study raises a number of questions as to how
professionalisation might be interpreted and boosted, and its effectiveness assessed. These
issues could provide a future research avenue to help understand the benefits of different
developmental approaches to improving top pay outcomes, for example via coaching,
mentoring, and continuing development. Our research uncovered the potential for a dark side
to the professionalisation of top pay decision-takers; this too could prove a valuable line of
enquiry that might assist in future regulatory reviews.

Implications for theory and practice

Our analysis suggests that when adopting a theoretical frame of reference to help make sense
of organisational phenomena, in our case the application of principles under the rubric of
professionalisation, there is merit in getting the subjects of the analysis to give their
perspective in qualitative terms. In the case of our respondents, we benefitted from
triangulating views from decision-takers themselves, whether as Remco members or as the
investment scrutineers of the choices they make, and also from those looking-in on decision-taking contexts, processes for resourcing activity, and the interpretation of the roles being performed. In this way, we have extended professionalisation theory as a lens for making sense of individual and collective acts of top pay decision-taking, leading us to propose that functionalist and more critically-oriented positioning of these acts both demand attention.

While it is tempting to interpret the codification of top pay decision-taker roles as a form of homogenisation leading to restrictive practices (DiMaggio and Powell, 1983), risks to the status of the social actors involved (be these self-interested or selfless), suggest that adopting a more blended theorisation has merit. As such we suggest that incorporating functionalism alongside - but not distinct from - the institutional politics of particular situations is relevant.

Our findings also give rise to a number of practical implications if a more professionalised approach to the complex phenomenon of top pay determination is to have a chance of enactment being consistent with espoused policy and regulation. Organisational actions from our analysis require corporate management empowerment of, and investment in, internal specialists to play a significant role in how top pay decision-takers are recruited (widening the criteria to identify a broader talent pool and specification of roles against which selection decisions are made). Internal specialists can also support the induction, coaching, and development of individuals to assure competence in performing their role, institutionalising these processes as central to accrediting role occupants. In so doing, this can underscore decision-takers’ legitimacy, given regulatory and wider socio-political demands for corporate governance reform as this applies to top pay determination, and ways in which more heterogeneous incumbents are recognised and (fairly) rewarded, mindful of the time and risk-related impact of taking on such roles. Adding accreditation-related teeth may be one way of addressing the scepticism contributors to this research voiced regarding token
compliance rather than full professional engagement in acquiring and maintaining necessary competence to meet contemporary expectations of top pay decision-taking processes and outcomes – including to explain departure from isomorphic compliance formulae where a more nuanced approach can be justified in search of sustainable competitive advantage. For regulators, these proposals may be read as helpfully informing future development of corporate governance codes.

**Concluding remarks**

The study suggests that increased regulation carries with it implicit top pay decision-taker professionalisation. It also highlights that the resourcing of Remco positions is hindered by the time involved in fulfilling what is a part-time role and by the reputational consequences of top pay outcomes when deemed egregious by the media. The findings also suggest that to avoid formulaic decisions, Remcos must not operate in the dark but instead gain a detailed understanding of the complex organisational landscape, and be prepared to defend their input into bespoke top pay decisions reflecting specific company circumstances. Similar implications flow from the study for institutional investment scrutineers. The study proposes that a solid foundation lies in induction and tailored training to understand the specific nuances of each company board with which the participants engage, and continuing development to ensure that decision-takers remain abreast of changing issues. Finally, it suggests that the professionalisation of top pay decision-takers can lead to a dark side whereby, through increased knowledge, their remit widens to encompass matters that are the preserve of executive roles, thereby potentially compromising the autonomy of non-executive positions and threatening the nature of independent corporate governance.
References


Higgs, D. (2003), Review of the Role and Effectiveness of Non-Executive Directors, Department of Trade and Industry, London, UK.


Table I: Interview participants*

<table>
<thead>
<tr>
<th>Non-executive directors (NEDs)</th>
<th>Context/background profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Win Bischoff</td>
<td>Board member, JP Morgan Digital Banking (UK) [2021]; former Chairman, Financial Reporting Council; former Chairman, Lloyds Banking Group and Citigroup</td>
</tr>
<tr>
<td>Lord John Browne</td>
<td>Executive Chairman, L1 Energy; former CEO, BP</td>
</tr>
<tr>
<td>Sir Roger Carr</td>
<td>Chairman, BAE Systems and Chairman English National Ballet</td>
</tr>
<tr>
<td>Sylvia Doyle</td>
<td>Director, Reward First People Consulting and independent non-executive member of RICS Remco</td>
</tr>
<tr>
<td>Chris Evans</td>
<td>Former UK Board Director, Royal Sun Alliance Insurance</td>
</tr>
<tr>
<td>Sir Philip Hampton</td>
<td>Co-chair Hampton-Alexander Review – FTSE Women Leaders; former Chairman, GSK; Chairman RBS and Sainsbury’s</td>
</tr>
<tr>
<td>Luke Mayhew</td>
<td>NED, DFS plc and Platinum One; former Board Director, John Lewis plc, WH Smith plc and independent Chair of IHG plc Remco</td>
</tr>
<tr>
<td>Sir Michael Perry</td>
<td>Board member, Museum of Royal Worcester; Advisory Board Forum member Said Business School, University of Oxford; former Chairman, Centrica plc and Unilever</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institutional investors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Baroness Helena Morrissey</td>
<td>Lead NED, FCO and NED, St James’s Palace Wealth Management; former CEO, Newton Investment Management</td>
</tr>
<tr>
<td>Dr Daniel Summerfield</td>
<td>Head of Corporate Affairs, USS Management</td>
</tr>
<tr>
<td>Trelawney Williams</td>
<td>Senior Advisor Brunswick Group; former Head of Corporate Finance, Fidelity International</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Advisors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gerrit Aronson</td>
<td>Independent Advisor to companies such as BP, Volvo, Ericsson, and Electrolux; former Board member TI Group plc and HR Director Glaxo-Wellcome</td>
</tr>
<tr>
<td>David Styles</td>
<td>Head of Corporate Governance Codes and Standards, Financial Reporting Council</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HR reward specialists</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Neal Blackshire</td>
<td>Director, Global Total Rewards, McDonald’s Corporation</td>
</tr>
<tr>
<td>Dr Jonathan</td>
<td>NED, Staffordshire University and Former Chief Operating Officer, Lloyds Bank and People Director - UK Change and Learning, Aviva</td>
</tr>
<tr>
<td>Jean-Pierre Noel</td>
<td>Former Senior Vice President InterContinental Hotels Group plc and Reckitt Benckiser plc</td>
</tr>
<tr>
<td>Maria Strid</td>
<td>Group Performance and Reward Global Projects Lead, HSBC</td>
</tr>
</tbody>
</table>

*All interviewees agreed to be named but not cited directly.
**Table II: HR reward specialist focus group participants**

<table>
<thead>
<tr>
<th>HR reward specialists</th>
<th>Job title and organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kelly Bol</td>
<td>Reward and Performance Management Manager, City and Guilds</td>
</tr>
<tr>
<td>Lucy Carr</td>
<td>HR, Finance and Operations Manager, MacGregor Healthcare</td>
</tr>
<tr>
<td>Paula Evans</td>
<td>Head of Pensions and Benefits, Fujitsu</td>
</tr>
<tr>
<td>Steve Hammond</td>
<td>Manager, Pay and Bonus, Fujitsu</td>
</tr>
<tr>
<td>Brigid Miles</td>
<td>Compensation Consultant, Hitachi</td>
</tr>
<tr>
<td>Colin Miller</td>
<td>Head of Pay and Reward, Kent County Council</td>
</tr>
<tr>
<td>Karen Pearce</td>
<td>Senior HR Business Partner, Ministry of Defence</td>
</tr>
<tr>
<td>Carol Richardson</td>
<td>HR Business partner, Change and Business Transformation Team, Saffron Housing</td>
</tr>
<tr>
<td>Hazel Robinson</td>
<td>Associate Director of HR, Brunel University</td>
</tr>
<tr>
<td>Greg Rochester</td>
<td>Human Resource Manager, Williamson-Dickie Manufacturing Co</td>
</tr>
</tbody>
</table>

**All focus group participants agreed to be named but not cited directly.**
Table III: Definitions of identified themes

<table>
<thead>
<tr>
<th>Remco decision-takers’ duties</th>
<th>Remco context</th>
<th>Remco members’ roles and resourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reward</strong> (10S, 18R) = Payment for Remco work carried out by NEDs</td>
<td><strong>Process inputs</strong> (12S, 42R) = Practices and procedures used in decision-taking by the parties involved in making top executive reward decisions</td>
<td><strong>Investment fund managers</strong> (13S, 61R) = Role and contribution of investment fund managers representing shareholders in remuneration committee decision-taking</td>
</tr>
<tr>
<td><strong>Time</strong> (9S, 14R) = Time spent on Remco work by NEDs</td>
<td><strong>Communication</strong> (9S, 20R) = Discussions required/undertaken within and/or external to the Remco by parties relevant to executive reward decisions</td>
<td><strong>NEDs</strong> (12S, 31R) = Role and contribution of non-executive directors in Remco decision-taking</td>
</tr>
<tr>
<td><strong>Development</strong> (8S, 12R) = Continuing professional development, training and development available/required/undertaken by Remco decision-takers</td>
<td><strong>Culture</strong> (6S, 14R) = Social behaviour of the organisation/board/Remco</td>
<td><strong>Talent agenda</strong> (10S, 13R) = Resourcing of Remco membership</td>
</tr>
</tbody>
</table>

**Footnotes:**
S = number of sources citing issue; R = number of references to issue.