

A retrospective on the Greenbury provisions

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Abstract

This thesis analyses corporate governance and executive remuneration in the UK during a period of precipitous change between 1992 and 2012. The study undertakes a mixed methods mode of enquiry to investigate the drivers and patterns of changes in corporate governance and executive remuneration. This thesis employs Bourdieusian perspectives on power, capital and fields, to illustrate those in society who operate in the field of power, harness observable forms of capital to cultivate policies which regenerate and support the elite body, which they are conceivably members of. The empirical setting for the analysis focuses on the 1995 Greenbury Committee, who played a central role in constructing the current framework for remuneration policy in UK organisations. Theoretically, this study propagates the idea of *closure*, as a specific mechanism in the field of power, whereby multiple elite groups come together, to address issues of mutual significance and thereby subvert threats to their collective authority. Using empirical data, the study questions normative interpretations of key concepts, such as merit, accountability and transparency, upon which much corporate governance regulation and remuneration decisions are predicated. Finally, the research reports on a de facto change from a unitary board structure, to a two tier system, structurally more akin to a German model of governance.

The research finds that the Greenbury provisions failed in their stated objective, of linking pay with performance. This research also demonstrates that the construction of the Greenbury committee itself, was essentially a political response by the governing elite to address the ephemeral problem of executive remuneration and can, accordingly, be conceived of as an example of a form of quasi-political self-regulation.

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Abbreviations used in the thesis

BOFIs - Banks and other financial institutions

CBI – Confederation of British industry

CEO – Chief executive officer

CFD - Contract for difference

CMA – Competition and markets authority

CSR – Corporate social responsibility

CWU – Communications workers’ union

EBITDA – Earnings before interest, tax, depreciation and amortization

EPS – Earnings per share

FRC – Financial reporting council

FTSE – Financial Times stock exchange

HFT – High frequency trading

IFS – Institute for fiscal studies

NAPF – National association of pension funds

NED – Non-executive director

LTIP – Long term incentive plan

MP – Member of Parliament

PLC – Public limited company

PRP – Performance related pay

OECD - The Organization for economic cooperation and development

ONS – Office for national statistics

R&D – Research and design

TSR – Total shareholder return

TUC – Trades union congress

UK – United Kingdom

WEF – World economic forum

Chapter 1 – General Introduction

1.1 Corporate governance and executive remuneration: an introduction.

This thesis is about corporate governance and executive remuneration in the United Kingdom between 1992 and 2012. It is about the way companies are directed and controlled and the people, structures and processes involved in that direction. The 20-year period under examination provides an interesting backdrop, as forces of globalisation not only changed the way British companies were structurally organised, but also changed the nature of their ownership. Issues relating to corporate governance have been shown to be important in this change. Concurrently, increasing inequality, financial crises and corporate scandals have led to the framing of principles upon which corporate governance is predicated, that of accountability and transparency for instance, becoming shibboleths of the era.

In 2011 the UK had the world's seventh largest economy¹ (WEF, 2011) and one of the world's largest financial centres in the City of London. Companies from all over the world list on the UK's exchanges due to the availability of capital, skill and levels of infrastructure offered both in the City of London and throughout the UK more generally. Capital has the confidence to list on the UK stock exchange, in part because of the UK's strong corporate governance framework. It has been a pioneer in both political and commercial governance modelling and the UK's codes of corporate governance have become an exemplar, which has been copied and emulated in principles-based jurisdictions around the world (Charkham, 2008). However in a similar fashion to the public outrage, a few years ago, about MPs' expenses, there is now a similar movement swelling against what is seen by some as corporate corruption² (Giltlin 2012).

As will be discussed in subsequent chapters, corporate governance policies and practices reflect a country's history and preferences (Charkham, 2008). A country's predilections relating to the key issues of power, accountability, transparency and equality are likely to be reflected in their ideas about political power and as such it is not coincidental that debates about governance frameworks and policies tends to occur in jurisdictions which are democratic and market based.

¹ The UK sits equal 7th alongside Brazil who both have a 2.94% share of world GDP.

² The rise of the 'Occupy' movement since 2011 has focused attention on issues of corporate morality and institutional greed. Additionally the 2012 *shareholder spring* illustrated the lack of voice felt by private investors.

The United Kingdom is one of the world's oldest democracies, which formerly governed over a quarter of the world's population (Ferguson and Barrett, 2004). The result of changes after the two world wars, amongst other things, arguably resulted in the decay of empire (Ferguson and Barrett, 2004). However, the legacy of empire remains to some extent. The UK still takes its place at the top table of world governance through its permanent position on the UN Security Council and its involvement in many other world and regional institutions. However behind this veneer of success, lies an increasingly fragmented society, characterised by the increasing poverty, "juxtaposed with the burgeoning fortunes of the super-rich" (Savage 2015: 3). Seemingly partially corrupt corporate and political systems (Giltlin 2012), and high levels of governmental, institutional and private debt, characterised by Varoufakis (2015: 5) as, "a new age faith in the financial sector's powers to create 'riskless risk'" culminating in the belief that the planet could sustain debt many multiples of global income". The power, oversight and responsibility for such changes lie not simply with elected politicians but also with organisational leaders who, as will be demonstrated, have an ever increasing amount of power (Maclean, Harvey & Chia 2010).

The chronological point of departure for this thesis is the Cadbury report of 1992, whose recommendations formed the majority of the substantive provisions detailed in the UK's combined code of corporate governance. As will be detailed in greater depth in chapter 4, Sir Adrian Cadbury was asked to develop a code to improve corporate governance in UK listed firms, as a result of, "continuing concerns about continuing concerns about standards of financial reporting and accountability caused by an earlier generation of corporate scandals including Maxwell, BCCI, Polly Peck, Coloroll and others" (Abdullah & Page 2009: 6). As will be discussed, the majority of corporate governance codes' provisions, reflect the UK's historical belief that trade and industry must be left to maximise profits with government intervention only when absolutely necessary (Charkham, 2008), therefore to this end Cadbury can be seen as a way of reinforcing the system of self regulation and the authority of accounting standards (Abdullah & Page 2009). In the area of corporate governance there are principally two types of regulation. First, is the formal legal framework constituted by Act of Parliament, such as the 1948 Companies Act. Secondly, there are 'soft' laws or regulation, enforced as listing rules, of which the code of corporate governance as inspired by the Cadbury committee, is an example. The thinking behind principles-based compliance is that such a framework, "secures flexibility and avoids the need for primary legislation at every turn" (Charkham, 2008: 301). The belief is that business, left alone, will secure optimal outcomes through what is essentially a form of market based self-regulation. Therefore the

basis of the UK code is one of ‘comply or explain’, that is, comply with the code, or explain to shareholders why the company is in non-compliance and when it expects to be back in full compliance. In the case of non-compliance, the theoretical premise is that shareholders either hold management to account, will sell their stock and the company’s value will therefore be reduced. As will be discussed, the set of assumptions that predicate this relationship, for instance that transparency can invoke a predetermined set of responses, are increasingly questionable and evidence offered in this thesis supports this scepticism.

This short chapter (chapter 1) explains why many of the issues subsequently debated are relevant in the wider context, it provides a framing for the research and introduces some of the conceptual issues whilst explaining how these issues are relevant both in terms of sociological theory and social practice.

1.1.1 An introduction to remuneration and inequality

Ever since money became a medium of exchange, debates have ensued over what its fair allocation resembles and what a person’s labour is worth. As early as the 4th century BC Plato wrote in *Laws* Volume 5, how can we “rightly order the distribution of the land?” (Jowett, 1873: 121). In Plato’s ideal city state property is divided proportionally, “The houses and the land will be divided in the same way, so that every man may correspond to a lot” (Jowett, 1873: 121)³ and anyone who acquires five times the limit of *his lot* forfeits the surplus and is fined as much again. In most societies, whether in ancient Greece or modern Britain, pay ratios are debated, discussed and eventually controlled, usually through the tax system. For example in the UK, in very recent history, extremely high rates of tax have been imposed in order to limit inequality and contribute towards a fiscal deficit. In 1974 the Wilson government increased the top rate of income tax to 83% for people earning more than £20,000 (Artis and Cobham, 1991). As will be presented in chapter 2, such policies led to inequality in the UK narrowing under the governments of the 1970s.

So what is at stake when issues of remuneration and inequality are debated? One position is that issues of executive remuneration are purely symbolic, as they often don’t substantially

³ Plato uses numerology to justify the distribution of property and focuses on the number 5040 as a convenient number for dividing many things. In his example he suggests that in an ideal nation state there shall be multiples of 5040 people; therefore allow efficient allocation of land. 5040 contain 59 divisors. The importance in this context is less on the mechanics of how he envisages division, but moreover the importance of the principles of division and proportionality.

affect the profitability of an organisation nor raise meaningful tax revenues (Zajac & Westphal 1995). However, even if this assertion is correct, inefficient and ineffective remuneration practice does have a cost, however comparatively minimal, which is borne by the shareholder and also arguably other stakeholders. However, putting the symbolism and cost arguments to one side, there are elements relating to the philosophy of merit and due desert in society which are at stake. Therefore although this thesis is about corporate governance and executive remuneration over a relatively short period of time (twenty years), it is also equally about a number of other issues such as the philosophy of merit and the use and exercise of power and capitals. So although executive remuneration only forms a part in the wider sphere of remuneration practice, it serves as a key referent by which all employees determine if their own situation is fair and the influence and reaction to their own compensation (Wade *et al.*, 2006).

There are two opposing viewpoints reflecting the contemporary debate surrounding many of the issues which this thesis examines; these form a worthwhile point of departure of this discussion. In 2013, the Mayor of London, Boris Johnson, made a speech to the Centre for Policy Studies. This speech is relevant in so much as it illustrates one perspective in the modern debate relating to remuneration and merit. In the speech he said,

“It is surely relevant to a conversation about equality that as many as 16 per cent of our species have an IQ below 85, while about 2 per cent have an IQ above 130. The harder you shake the pack, the easier it will be for some cornflakes to get to the top. And for one reason or another – boardroom greed or, as I am assured, the natural and god given talent of boardroom inhabitants – the income gap between the top cornflakes and the bottom cornflakes is getting wider than ever.”

(Johnson, 2013: 7)

Mr Johnson’s thinking reflected normative approaches to merit that have come to dominate neoliberal societies around the world since 1979. From the counter perspective, the increasing income gap reflects the unequal distribution of power in a society and not the *God-given talent* of its constituents,

“If people do not earn much, it is because they do not have control over the political institutions and the means of production... inequality is the result of

social and political injustice. People dissatisfied with their economic lives should seek political power through collective action” (Kay, 2003: 281)

Therefore, power, equality and desert are concepts that are revisited throughout this thesis, as they lie at the heart of many of the debates. How we allocate reward and assign merit requires complex interrogation and, as will become apparent, is overlaid with power and politics (this forms the basis of the discussion located in chapters 5, 6 and 7). For instance, what is the bargaining power of directors? What alternatives are open to them and what are the features of the market? What is the proportional contribution of directors to organisational profitability (this is characterised in some literatures as their *marginal product* (Finkelstein & Boyd 1998)) and what political factors have an impact?

1.1.2 Inequality in the UK: why remuneration matters

Since 1979, society in the UK has become vastly more unequal, the top 1 per cent of the population now enjoys a total gross income of more than double its 1979 share (Atkinson 2015). Coupled with the increased wealth of the top 1%, there has also been growing underclass, whom Savage (2015), in the recent BBC class survey, characterised as the “precariat” (Savage 2015: 353). This group form 15% of the population (Savage 2015) and have little social or economic mobility (Jones, 2012). Many societies, particularly in the UK and US, developed an abiding belief in individualism, centred on the principle (and definition) of merit (this concept is debated in section 6.9). This, “return of a visible and cohesive elite, given the greater accumulation of wealth at the highest levels of society” (Savage 2015: 355) is an extremely important point of discussion. Does the disproportionate accumulation of wealth by elite groups, such as the corporate elite, have any impact on recorded levels of inequality? This is the focus of section 2.3.

There are also other interrelated questions to examine, assuming employees are unequal in their power within organisations and therefore in their ability to influence various aspects of business life, then who runs the organisation and to what end? How relevant are the governance rules and the principles on which they are based? Whilst many of the issues debated in subsequent chapters are about corporate governance, they are not only about corporate governance, they are about the philosophy of merit, justice and fairness.

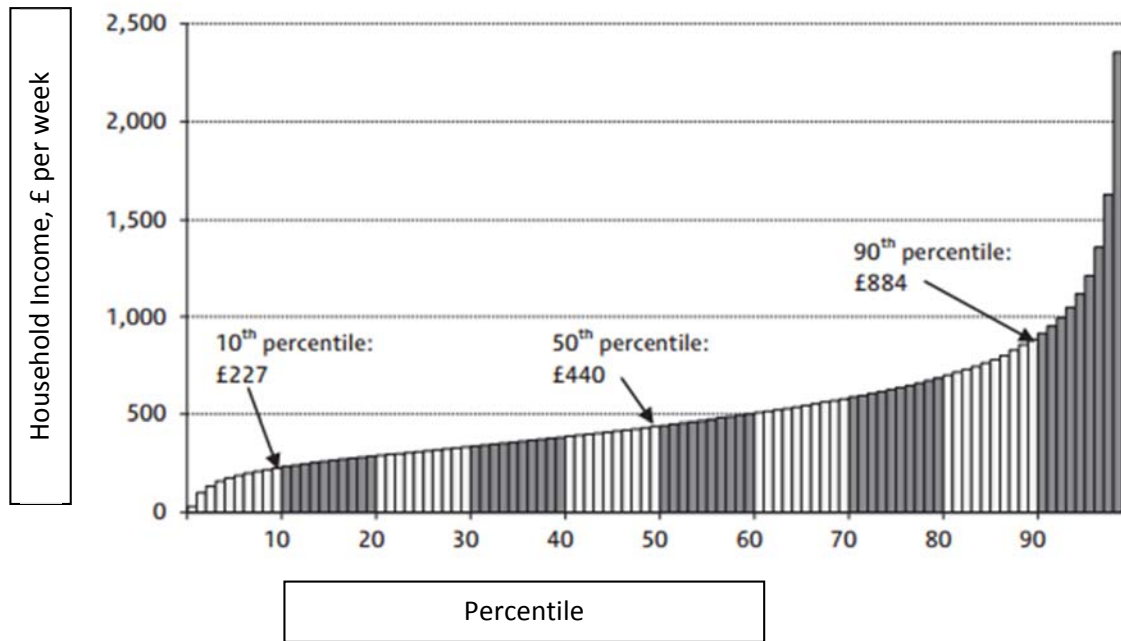


Figure 1: Weekly net household income at each percentile point in 2012–13 Source: Institute for Fiscal Studies (2014)

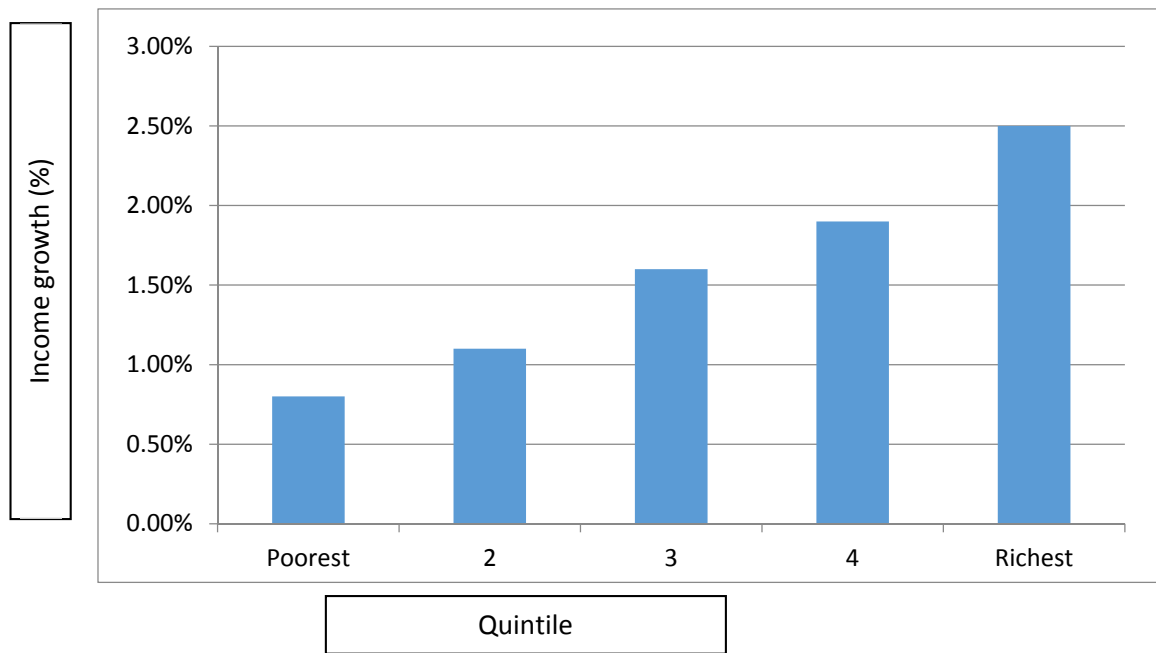


Figure 2: Real income growth by quintile group 1979 - 1997. Source: Institute for Fiscal Studies (2012)

As will be discussed in section 2.3, inequality in the United Kingdom is increasing. Data produced from the Institute for Fiscal Studies (IFS) found income inequality had risen,

employing the widely used Gini coefficient⁴, by more than a third, from 0.26 in the 1970s to 0.36 in 2009/10 (IFS, 2012). Additionally we can also note from the IFS data, that real incomes have increased at a faster rate for the upper income quintile since 1979 (see Figure 2), whilst the top 10% of the population take a hugely disproportionate share of household income (see Figure 1). There appears to be an elite whose level of attainment, income and education are rising faster than those of the remainder of the population (Atkinson 2015, Piketty 2013), and this trend is unprecedented in its scale, “There is no historical precedent for such regressive redistribution within one generation” (Savage & Williams, 2008: 1). The motivation therefore for the study of top executive pay, stems in part from these statistics. Above the 90th percentile, income accelerates sharply, therefore it is surely a worthwhile question to ask the question why, and furthermore, to examine what set of circumstances are, that have facilitated this trend.

The increasing incomes of those at the very top of British business mirrors the increasing size and complexity of UK companies listed on the UK’s markets. For example, associated with these statistics is the finding that 47% of corporate power (the authors define power as ‘command over resources’ and section 2.7.3 will define this) is held in just 20 FTSE listed companies (Maclean. Harvey & Chia., 2010). So there is an apparent elite, who collectively control substantial amounts of corporate power and are increasingly highly remunerated as a result⁵. What is the relationship between power and remuneration and what factors impact on this relationship? Have governance arrangements for dealing with remuneration (remuneration committees, remuneration consultants), and the assumptions on which they are based (merit, value, performance), appropriate for the new forms of institutions which are evolving. As will be examined in chapter 4, there may be an ever widening disconnect between the (so-called) *best practice* policy formation and the way our businesses are punitively governed.

Given, as will be illustrated, the assumption that employees are unequal in their power to influence various aspects of organisational activity, then how can we ensure that organisations benefit all stakeholders, not simply those with the power to influence organisational activity?

⁴ The Gini coefficient measures the inequality among values of a frequency distribution, in this example it is income. A coefficient of zero would represent perfect equality whilst a coefficient of 1 would represent a system where all the income was owned by 1 person.

⁵ In 2011 The Income Data Service (IDS) reported that FTSE 100 directors total earnings increased by 49% in the year to June 2011, rising to on average £2,697,664 per annum. A large majority are awarded in the form of incentives related to profit.

Furthermore is this, or should this be, a legitimate objective for corporate governance policy makers? As will be examined in chapter 6, the validity of rights by various stakeholders exercising power over organisational activities is a contested area, which ultimately can be regressed to basic political philosophy. For instance, to what extent should the proprietors of capital benefit from the capital they employ? Are there competing claims to control over resources other than merely those of the *de facto* owners of the resource? Ultimately all these issues are related, to some extent, with the prevalent governance rules and behaviours. Therefore the development of the governance framework (chapter 4), how change is driven (chapter 5) and its impact (chapter 6 and 7) are each explored in turn.

1.2 Executive remuneration: the need for further research

The rationale for further research into executive remuneration can be attributed to both the substantive changes in remuneration levels in UK markets, particularly in listed companies⁶, but also the ongoing socio-economic debates about equality. The issue of equality is the focus of one of the most significant socio-economic contributions of recent times, *Capital* by Thomas Piketty. This work acts a point of departure in as much as it identifies a multitude of contradictions in the systems and structures that neoliberalism is fostering⁷. It therefore provides impetus for attempting to understand and interpret issues in relation to remuneration, in the case of this research in the UK, which can be interpreted as a microcosm of the wider economic system which Piketty examined.

In the UK, regulation of executive remuneration is supposedly achieved through disclosure of audited accounts and the resulting market based responses (aside from its control through the system of general taxation). But what are implications of inappropriate pay structures and why should this area be investigated? Are the remuneration inequalities described merely an acceptable symbolic by-product of the capitalist system and what is their wider impact?

In the UK the 1995 Greenbury report highlighted that there had been concerns relating to the amount of compensation paid to departing directors who were granted overly generous long term service contracts, as detailed below in the Greenbury report, but also the accountability

⁶ Principles of good governance apply to all companies, though the application of these principles will obviously vary according to size and circumstance. The methods employed in this research tend to focus explicitly on quoted companies and in particular companies listed on the FTSE 100 for whom the combined code of corporate governance is applicable.

⁷Despite presenting original large scale empirical evidence to support his arguments Piketty is only one in a long line of academics to identify the numerous paradoxes.

of these directors more generally. The debate was framed by the debate over Cedric Brown's salary as CEO of British Gas,

“Recent concerns about executive remunerations have centred above all on some large pay increases and large gains from share options in the recently privatised utility industries. These increases have sometimes coincided with staff reductions, pay restraint for other staff and price increases”. (Greenbury, 1995: 9)

The Greenbury committee met in the spring of 1995 in order to debate how to address the problems outlined above. The committee's report that was subsequently published proposed the architecture of executive remuneration in UK listed organisations, that has been in use ever since. The report has had significant and long standing implications for executive remuneration in the UK (Maitland 2008), which is of ongoing relevance.

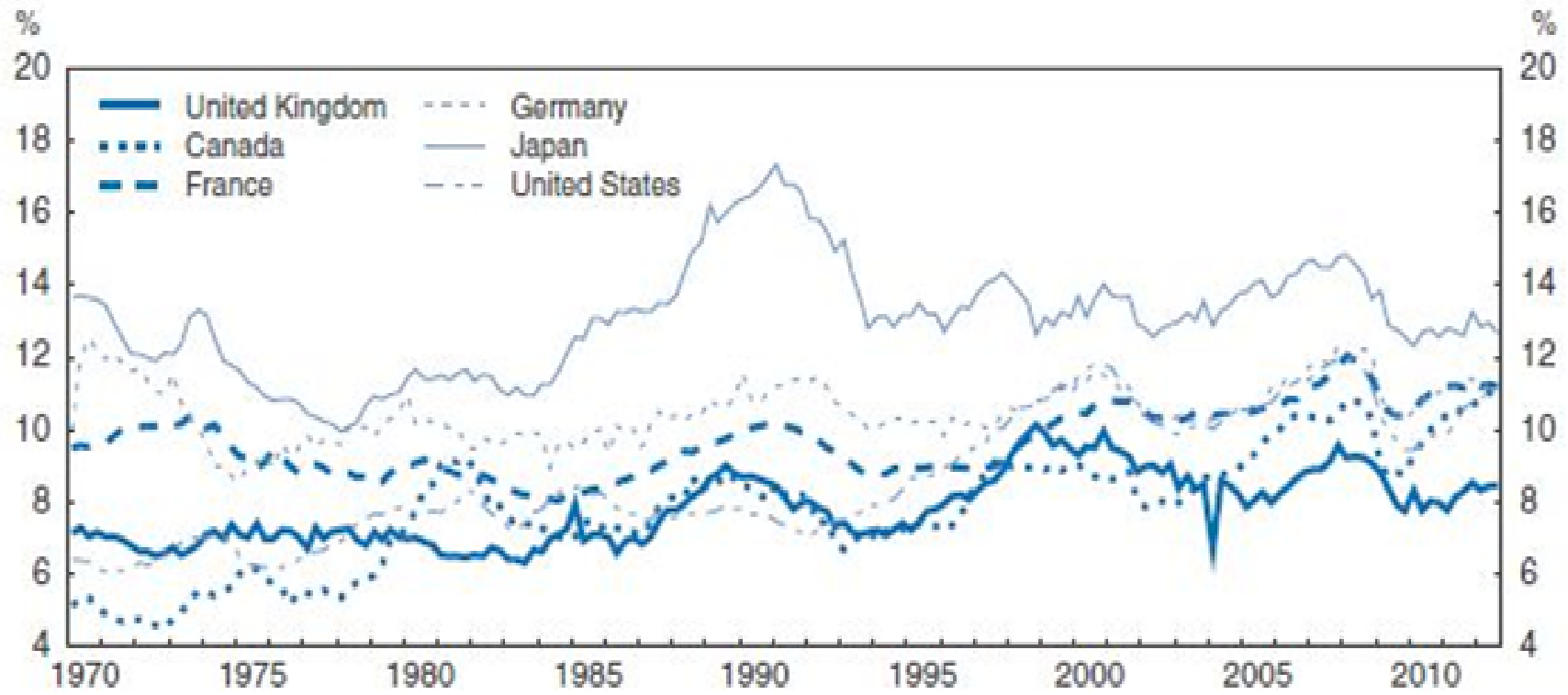
Figures from the High pay centre (HPC, 2013) reiterate these sentiments and indicate the issue has not subsided. For instance in 1980 average FTSE CEO remuneration was £115,000 rising to £1,000,000 in 1998, a near 10 fold increase, whilst the average UK salary rose from £6,500 to £17,400 over the same period. As will be examined in depth in chapter 5, one of the principle objections to the awards made to managers in formally privatised utilities is that they were seemingly derived from the monopoly power of these companies, not as a result of any sort of entrepreneurial flair or contribution that the executives running the organisations had made over time⁸, in fact Greenbury (1995: 9) explicit noted as much in citing the “public and shareholder concerns” from gains made from the “recently privatised utility industries”. Therefore the nascent debate in 1995 was really about similar issues, which were to be debated 20 years later, *viz.*, issues of proportionality, merit and fairness.

1.2.1 Short termism and remuneration in the UK: an introduction

Unlike other European countries, Britain's financial sector emphasises short-term profits as, *prima facie*, the most important strategic goal of business. How businesses are governed has been driven by this *raison d'etre*, the focus on quarterly corporate earnings and the desire to attract inward investment, has arguably led to the long term failure of these businesses. “It has long been more acceptable socially to make money, than to make things” (Charkham, 2008: 294). The trade-off is that the City of London is one of the world largest financial centres and attracts capital and inward investment on a scale, which other financial centres are unable to

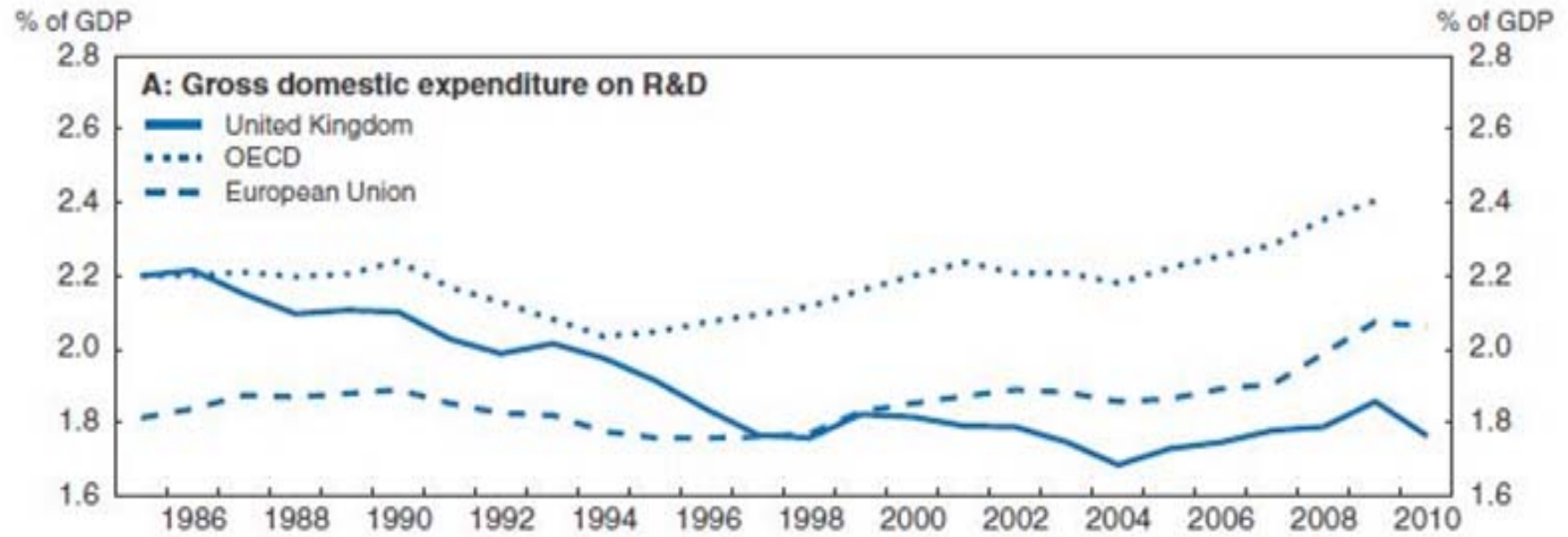
⁸ See Greenbury (1995) section 1.6, 1.7 and 1.8, p9-10.

do. In Britain, financial services as a percentage of GDP is proportionally one of the largest sectors accounting for almost 10% of GDP whilst in Germany that figure is less than 4% (BoE, 2011). However the UK has had proportionately lower levels of investment in innovation since 1970, vis-à-vis other developed nations (see Figure 3 and Figure 4). In areas of productivity, the UK has not grown since 2007 (ONS 2015). This reflects a period of stagnation which is unique in the post-war period, “such a prolonged period of essentially flat productivity is unprecedented in the post-war era” (ONS, 2015: 3). The OECD highlighted in its 2013 economic survey, that the UK is still not doing enough in terms of investment for the long term, “The low R&D intensity compared to other OECD countries could be addressed by better rewarding innovation through the tax system” (OECD, 2013: 87).



X Axis: Time. Y axis: % of GDP

Figure 3: Business Investment as a % of GDP. Source: OECD (2013)



X axis: Time. Y axis: % of GDP

Figure 4: Investment in R&D as a % of GDP. Source: OECD (2013)

So the supposition borne out by the OECD statistics is that the UK historically has under-invested in its businesses, infrastructure and research and design, to the detriment of long term economic sustainability. How these businesses are governed, their short and long-term strategies and, crucially, how their leaders are incentivised to pursue such objectives are integral parts of the system. There is a strong argument that in the UK, the executives have little incentive to innovate or grow their business for the long term⁹, this isn't necessarily a failing of the individual(s) running the organisations, moreover it may be a systematic failure of the governance framework that has evolved. Political economist and former strategic advisor to the Blair governments of 1990s and 2000s, Will Hutton (2013: 45) explained this as follows,

“Executive teams do not need to invest and innovate dynamically to earn rich personal rewards. They just need to be in post, squeezing the workforce’s wages to lift profits, now the fast and easy route to apparent better performance, and thus to increase their own remuneration”

As will be examined in chapter 4, one of the key findings of the 2009 Turner report, which represented something of post mortem of the 2007-2008 crisis, is that, “there is a strong *prima facie* case that inappropriate incentive structures played a role in encouraging behaviour which contributed to the financial crisis” (Turner, 2009: 79). Therefore, although Turners reports focused on the financial sector, how remuneration encourages certain behaviours is an interesting and topical area of research more generally. However, executive remuneration is an issue which doesn't exist in a vacuum. How we identify who merits preferment, and how to reward this merit, is inextricably linked to the wider historical socio-economic predilections of the country under analysis (Charkham, 2008).

1.3 Ownership: an introduction

One of the major themes which emerged from the 2012 Kay report is that, “regulatory practice should favour investing over trading, not the other way round” (Kay, 2012: 44). But how can this be achieved? How do regulators ensure owners of capital live up to their responsibilities as owners rather than becoming merely passive custodians of assets?¹⁰ Do

⁹ Establishing a proper definition of what would reasonably constitute 'long term' is contentious. Most incentive arrangements such as LTIP's make awards ranging from 3 to 5 years, however there is strong case made by Kay (2012) and others long terms should be defined as 5 years or more.

¹⁰ The average duration of equity holding in the UK has fallen from 5 years in 1960 to 7 months in 2009 (Haldane 2010 - BOE's executive director for financial stability.)

directors need to be legally obliged to invest more for the long-term of their businesses and how might they be incentivised?

Evidence suggests that short termism is both strategically and economically significant in British capital markets, “in the UK and US, cash flows five years ahead are discounted at rates more appropriate eight years hence, ten years ahead cash flows are valued as if sixteen or more years ahead and cash flows more than thirty years ahead are scarcely valued at all” (Haldane & Davies, 2011: 1). The authors (one of whom is the Bank of England’s chief economist) suggests there is market failure in so much as longer term projects, which typically offer the largest boost to future earnings for companies, are often left on the shelf in favour of projects with quicker rates of return (Haldane & Davies, 2011).

As part of the on-going discourse surrounding corporate accountability, the Ownership Commission was established by the Labour government in 2010. They produced a report two years later in 2012. The commission raised cause for concern in the way British organisations suffer from short termism and criticised what it calls the ‘plc monoculture’,

“PLC share ownership is increasingly influenced by short-term transactional imperatives... We are anxious that there is evidence that short termism is increasing, making it harder for Britain to have strong companies where long termism is central to the business model, like those dependent on an expensive infrastructure or long term product development” (Ownership commission, 2012: 9).

The commission goes on to identify that there is an unrecognised plurality of ownership which requires different legislative and regulatory conditions. The Ownership Commission report suggested that in this sense, the impact of sovereign wealth funds, pension funds and private equity makes traditional agent – principle based legislation is invalid and therefore increases the propensity for short-termism. The key finding of the commission was the requirement to better connect citizens, either as shareholders, consumers or workers, with the companies they engage with.

So it is evident that there are clear policy and practice based rationale, which make it worthwhile to investigate executive remuneration. However there is also a clear academic rationale which will be explored in more detail, in chapter 2.

Broadly speaking this research traverses a number of disparate, but often related themes of academic work. Chapters 5 and, to some extent, chapter 7, engage with the work of the French philosopher Pierre Bourdieu, who propagated a wide range of social theories. His philosophy inspired extant work on power by authors such as Lukes (2005), Clegg (1989a, 1989b), Clegg & Hardy (1996) or Hardy & Phillips (2004) who have their antecedents traced back to Bourdieu's work. In much the same way, Marx's notions of capital were developed by Bourdieu (1972, 1984, 1986¹¹), Bourdieu & Waquant (1998), Piketty (2014) and Savage (2015). These important works, both implicitly and often explicitly, have developed the ideas of their predecessors, but also have helped to develop further contextually specific threads of work. For example, 'Elites and the field of power' is a specific thread of organisational research led by Clegg (1996), Maclean, Harvey and Press (2006), Phillips, Courpasson and Clegg (2006), Maclean, Harvey and Chia (2010), Zald & Lounsbury (2010), Maclean, Harvey and Kling (2015a, 2015b) and Reed (2012) and but can have its antecedents traced to the work of classical scholars such as Marx & Engels (1888, 1965), Marx (2011), Parato (1935), Mosca (1939) and more recently Miliband (1969) and Bourdieu (1972, 1984, 1986). Therefore many of the literatures' engaged with in this thesis, form a broad church of complementary work.

In similar fashion, work on corporate governance can be traced back to the origins and subsequent evolutionary trajectory of the modern corporation. Most notably the 1932 work by Adolf Berle and Gardiner Means entitled "*The Modern Corporation and Private Property*" described the perimeters of the modern corporation, but what is conceived of as corporate governance is a continually evolving paradigm, which has moved on substantively since their work was published. More latterly, relevant developments are reflected in the work of modern agency theorists such as Jensen (1976), Jensen & Meckling (1994) and Useem (1984). As will be explored in chapter 2, the more contemporary debates on corporate governance involves concepts recent to their time, issues such as accountability explored in depth by John Roberts (1991, 1996, 2001a, 2001b, 2009, 2010a, 2010b, 2012) and the interrelated canon of work on transparency, notably covered by authors such as Butler (2005) and Messner (2009).

¹¹ Bourdieu's 1986 work, "The forms of capital", makes explicit references to Marx's treatment of capital, but indeed, there are strong and frequent references to Marxist ideology throughout all of Bourdieu's work.

1.4 Aims, contributions and research questions

This section discusses the research questions and aims of the thesis, whilst also providing clarification of its structure. The contribution and impact of this research is broadly twofold. Firstly it aspires to critically explore the validity of agency theory in explaining relationships in FTSE 100 governance regimes, and secondly it reviews the extent to which the Greenbury provisions were successful, particularly in mediating the relationship between pay and performance. This question arose out of the ongoing efforts in the literature to ascertain the nature of relationship (this is explored in section 2.6).

The unique and significant contribution it makes is by obtaining and interpreting interview data from all of the living members of one of the most important committees in the history of UK corporate governance, the Greenbury committee. This research represents what will almost certainly be the final time that such a collection of first-hand accounts can be gathered, and it aims to provide a rich and nuanced insight into the functioning of the field of power during the period. This research aims to provide both a robustly framed theoretical insight into the impact of these provisions but also to make a contribution, which may have policy relevance.

There are four principle research questions addressed sequentially in chapters 4-7:

1. How has the discourse of corporate governance evolved between 1992 and 2012?
2. How and with what consequence did the ruling elite respond to the challenges presented by the executive remuneration scandals of the early 1990s?
3. To what extent were the Greenbury provisions successful in mediating the relationship between pay and performance?
4. What are the main patterns and drivers of change in corporate governance and executive rewards between 1992 and 2012?

As will be discussed more detail in the 3rd chapter, these questions were addressed in an inductive and interpretivist manner, but their origins are also located in the literature. Questions 1 and 2 originated, inductively, from the sources of data used. The genesis of questions 3 and 4 are explicitly located in sections 2.6 (RQ3, pay and performance) and section 2.4 (RQ4, change in corporate governance). As will become evident after a reading of chapter 3, these questions are best explored using a mixed methods approach and this approach is justified in that chapter, where the specific design of the research is discussed.

Although the research questions are discrete, they are also interlinked and, to some extent, deliberately so. For instance, the focus of chapter 5 is, “how and with what consequence did

the ruling elite respond to the challenges presented by the executive remuneration scandals of the early 1990s”, whilst chapter 4 asks, “how has the discourse of corporate governance evolved between 1992 and 2012.” These two questions are implicitly interrelated. The rationale for this unifying approach is in the hope that more substantive and comprehensive conclusions may be drawn. Chapter 4 provides a central focus in describing the evolving discourse of corporate governance between 1992 and 2012. This notion of an evolving discourse is important because from this analysis, chapters 5, 6 and 7 may be more readily contextualised.

1.4.1 The structure of the thesis

This thesis is unified by consideration in each chapter of a similar set of issues, but each one provides different theoretical and practical insight into these issues. They are organised in a structured and coherent manner, which develops in stages as the thesis proceeds.

This introduction is followed by chapter 2, which reviews the relevant academic and policy based literature. There are three core pillars of theoretical enquiry that are employed in the subsequent chapters. First, issues of theory and practice in relation to corporate governance. Secondly, specific issues related to executive remuneration, inequality and ownership are examined in depth, before the final section summarises the key concepts employed by the French philosopher Pierre Bourdieu and explains why these concepts provide an important framework for analysing issues of governance, power and remuneration. Related to Bourdieu’s theorising is a canon of work looking at elites, institutional reform and the field of power which adjoins this final section.

The third chapter is about the methods employed in the pursuit of the research questions. Mixed methods were employed and the rationale for taking this approach is justified and reasoned in this chapter. It also provides insight into the particular type of methodologies employed, the nuances and challenges faced, and the way in which the data was interpreted. Finally a brief, but important note is made on the ethical considerations of this research.

The fourth chapter provides something of a ‘backbone’ to the thesis in so much as it analyses the evolution of the discourse of UK governance explored through the texts which constitute it. Starting in 1992 with the Cadbury report, the chapter chronologically discusses the salient points of the corpus of corporate governance texts. It concludes with a debate relating to the present regulatory environment and a discussion of the two key themes of structures and behaviours, which have emanated from the texts. It then moves to discuss the institutionalised

nature of the evolution in corporate governance. The content of this chapter lays the foundations for subsequent chapters and therefore makes them more contextually relevant.

Chapter five harnesses the theoretical work of the French social theorist Pierre Bourdieu to examine how the ruling elite responded to the challenges of executive remuneration in the early 1990s. It begins with a discussion of the antecedents of the 1995 Greenbury report, before moving to employ Bourdieu's theory to analyse the formation of the committee and the conclusions they drew. Finally the chapter integrates some of the debates pertaining to the philosophy of merit, transparency and accountability with the ideas of power, fields and capitals.

Chapter six is about executive remuneration. It debates how successful the Greenbury provisions were in mediating the relationship between pay and performance. It critiques the taken-for-granted assumptions upon which corporate remuneration is predicated. Section 2.6, located in chapter 2, introduces the academic rationale for the research question. It explains how ideas of agency, transparency and merit all underpin how remuneration is normatively conceived and this chapter seeks to delineate and explain some unforeseen consequences, paradoxes and contradictions.

Chapter seven discusses the evolving structure of corporate governance, which was one of the key themes identified in chapter 4. The chapter examines the patterns and drivers of structural change between 1992 and 2012, and debates the theoretical and practical implications of change. It does this by triangulating numerical data harvested from the sample of FTSE firms with interview data (with members of the Greenbury committee) and examines how institutional theory provides insight into the analysis of change, and therefore how normatively constructed myths, such as transparency and merit, lead to relatively predictable evolutionary patterns.

The thesis concludes with chapter 8 which summarise the main findings in the context of the theoretical and empirical contribution of the thesis. Finally it debates some implications for future research before going on to discuss limitations, and possibilities of further research.

Chapter 2 – Corporate governance and executive remuneration: A literature review

2.1 Introduction

There is a substantial breadth and depth of literature, which seeks to examine themes in, ‘corporate governance.’ It follows then, that there are a range of definitions, which are dependent on the context in which the term is used. For example finance theorists tend to interpret the governance of companies centred on the use and management of finance and the management of transaction costs. Sociologists and organisational theorists focus on issues from other perspectives as being crucially important. Therefore what constitutes corporate governance is neither specific nor bounded (Ahrens, Filatotchev & Thomson., 2011).

With such a diversity of definition and coherence both within and between various jurisdictions, the OECD introduced the ‘principles of corporate governance’ in 1999, which was subsequently revised in 2004, whose stated aim was to, “become an international benchmark for policymakers, investors, corporations and other stakeholders worldwide” (OECD, 2004: 3). Their characterisation of corporate governance is as a series of mechanisms capable of regulating the relationship between a company and all of its stakeholders. This is important because it therefore implies that an approach which considers the governance system as a diverse collection of constituents, with customers, employees, other companies, governments and the environment all playing their part in the process of governance. With this in mind this chapter initially summarises the literature concerning the dominant theoretical approaches to corporate governance, namely agency theory and managerial hegemony theory which are outlined in section 2.2.1 and 2.2.2. The chapter then moves to outline the theoretical foundation on which agency theorists base their argument in addressing the key issues of accountability and transparency.

The next section identifies the relevance of the wider issues of inequality coupled with the increasing pervasiveness of contemporary neoliberal thought. The changing models of ownership are then introduced and the implications of this evolution for corporate governance are then discussed alongside the evolution of asset management structures and policies. This leads on to a review of the literature covering some of the key issues which are related to executive remuneration, specifically the link between pay and performance and the increasing use of remuneration committees by listed UK organisations.

The final sections of this chapter focuses on the central theoretic framework of this thesis. The literature employed in this section (and also in others) is congruous in the sense it may be

broadly considered to be a post-Marxist discourse. Therefore to this end, Sections 2.7 to 2.9 respectively, present the ideas of French philosopher Pierre Bourdieu, elite theory and finally institutional theory. These concepts are employed throughout chapters 4-7 to assist in analysing and framing the data.

2.2 Corporate governance theory and practice.

2.2.1 Agency theory

One of the main tensions within modern organisations is the separation of ownership from control. Such a notion is not new or unique to modern corporations; Adam Smith (1776) identified the issue in his influential ‘The Wealth of Nations’ (1776). Berle and Means (1932) brought the issue into the 20th century in, “The modern corporation and private property,” which can conceivably be seen with hindsight as the catalyst for the creation of the field now called ‘corporate governance.’ Other authors such as Fama (1980), Fama (1983), Jensen & Meckling (1976), Jensen (1994) and Williamson (1984) have evolved an ‘agency theory’ to summarise many issues concerning the problematic contracting, labour market and incentive arrangements of all kinds that organisations face and it has developed very much into a distinctive theory in corporate governance.

The basic assumption of agency theory is that there exists an agency problem in modern organisations as there is a separation of ownership from control. In this situation shareholders (principals) need to control directors’ (agents) behaviours in order to maximise their own wealth. In such a scenario, there is deemed to be information asymmetry because owners are not involved in the day to day running of the organisations. Self-interested behaviour is therefore avoided by attempting to align the interests of the principal with the agent through the use of various alignment instruments or mechanisms, as Jensen (1994: 12) explains,

“Agency theory postulates that people are, in the end, self-interested and they will have conflicts of interest over at least some issues, any of the time they attempt to engage in co-operative endeavours”

Agency theorists highlight the key role of extrinsic rewards (such as remuneration for instance) in aligning the interests of principal and agent (Jensen, 1994). From this perspective managerial behaviour can be moderated by appropriate contracts being established which will align the objectives of both principal and agent (Jensen, 1976). The compensation of the agent is therefore partly contingent on achieving outcomes important to the principal, thus optimising the utility of both parties (Fama, 1980). Agency theorists postulate that this

arrangement motivates the agent under conditions which are not directly observable, and therefore the key challenge is to apply a contract which presents the most efficient compensation package for maximising agent effort.

Agency theory is the dominant paradigm for corporate governance research and policy alike. “Within popular and political discourse, the owner fiduciary model appears to be still dominant” (Hendry, Sanderson, Baker & Roberts, 2006: 1105). In addition to the presence of extrinsic rewards, agency theorists highlight the central importance of an effective system of monitoring being present. Therefore effective governance structures are required to overcome the information deficiency of the principal. Therefore the dual mechanisms of contracts and monitoring are the theoretical foundation of the systems of corporate governance, which have been widely adopted in many jurisdictions around the world.

Agency theorists have been widely criticised in so much as they make negative and pessimistic assumptions about human nature (Cuevas-Rodríguez, Gomez-Majia & Wiseman., 2012), which to some extent, precludes the concepts of trust and co-operation between principal and agent (Fehr & Falk, 2002) which may be present. The characterisation of agents as self-serving, opportunistic and deceitful has been challenged as not only negative, but self-fulfilling, to the extent it may lead to the type of behaviours it seeks to discourage (Donaldson & Davis, 1991; Donaldson & Davis, 1994). Therefore some authors have suggested agency theory be expanded to include a behavioural perspective (Tirole, 2002; Benabou & Tirole, 2003; Cuevas-Rodríguez *et al.*, 2012) which suggests intrinsic incentives may form an alternative method of control over agents. Such intrinsic incentives therefore may be equally as powerful and their extrinsic counterparts, for instance, job satisfaction or prestige may be equally as powerful an incentive as the rewards identified by agency theorists (Jenson 1994)

However, this has not been the only criticism levelled at agency theorists. There is an increasingly strong argument that the traditional agency relationships espoused by many of the authors noted previously are becoming increasingly invalid as a result of changing remuneration and ownership trends. One of these changes is reflected in the way executives are remunerated for their work as it represents a central pillar of the theoretical owner fiduciary model. Remuneration packages are increasingly focused on stock options and share bonuses (HPC, 2012), therefore although managers may only own a small fraction of the company’s issued equity. In terms of the individual executives’ portfolio, the amount is likely to be very large (Useem, 1984) and there is an increasing proportion of an executive’s remuneration which is issued in the form of equity (HPC 2012). So although there is a high

degree of separation of ownership from control in the traditional sense, there is often no separation of interest and in some cases there is evidence that executives may be even more profit driven than shareholders (Useem, 1984).

However, remuneration is simply one of many constructs, which symbolises the changing corporate landscape. Equally, ownership models have also evolved. As will be elaborated upon in section 2.4, the principal-agent relationship assumed between institutional investors and the organisations they invest in, is not necessarily accurate. Tilba and McNulty (2012) suggested the relationship is personified more by ‘trading’ and ‘exit’ behaviours rather than by ‘owner’ and ‘voice’ behaviours. As will be discussed, the behaviours exhibited by directors are those that tend to lead to the most beneficial remuneration packages, which are increasingly based on bonuses and incentives.

2.2.2 Managerial hegemony theory

An analytical position for studying board power relationships is managerial hegemony theory (Mace, 1971; Lorsch, 1989; Pettigrew, 1992; Finkelstein, 1992; Demb, 1992; Pettigrew and McNulty, 1995; McNulty & Pettigrew, 1996; Pettigrew, 1998). This theory assumes that boards are controlled by their more informed executive component, as opposed to the part time or less well informed and less active non-executive constituents. Governance regulation in the UK has, in theory, attempted to close that gap as a result of the continual evolution of the UK code of corporate governance, and the increasing use of non-executives who provide an augmented monitoring function. Nevertheless, is the theory still valid and to what extent do executives still dominate the decision-making and set the agenda?

Proponents of managerial hegemony theory suggest that power rests with the ‘top management team’, and that the ability to influence and shape decisions at board level differs between non-executives and executives (Pettigrew & McNulty, 1995, (McNulty & Pettigrew, 1996, Pettigrew 1998). The antecedents of this work can be traced back to Mace (1971), who argued that non-executives have a power deficiency relative to executives and that their status therefore constrains their ability to convert their legal mandate into power and influence in the boardroom. Therefore, although power lies with the top management team, it is very much weighted towards the executives in those teams. Does a smaller concentration of power at the top of FTSE 100 companies necessarily lead to better decisions and is this hegemony healthy?

“The managerial hegemony tradition of work argues that, in spite of their legal responsibilities to safeguard shareholder interests, many boards are effectively controlled by the full-time, better informed, and more experienced corporate

management and [non executives] acquiesce into a rather passive, rubber-stamping role.” (Pettigrew, 1998: 200).

The extent to which managerial hegemony theory truly reflects either theory or practice in UK boardrooms is debatable. In the classical Weberian sense, power is deemed to be hierarchical and therefore corporate executives are in a position, structurally, to dominate those less powerful than themselves in the hierarchy. As will be discussed later in this chapter, Maclean *et al.*'s (2010: 328) characterisation of power as “command over resources,” reflects Clegg’s interpretation (1989b: 99) that it’s a “capacity premised on resource control” and its cause is, “resource dependency” based on, and “a property of relations”. Therefore it is assumed that power is determined by these factors, the logical conclusion of which, is the managerial hegemony school’s assertion that executives hold a disproportionate share of corporate power, and to some extent, this is probably true. Despite this, there is empirical evidence that board compensation has little effect on CEO power (Veprauskaitė and Adams, 2013) or indeed on profitability (Adams, Almedida & Ferreira, 2005) but an increased non-executive presence may limit executive empire building and the influence in the nominations process (Baldeuius, Melumad and Meng, 2014).

Undeniably, due to the high profile series of corporate failures, there has been an increased focus on the decision making in the boardroom. In particular the 2007/8 financial crisis led to an unprecedented level of research and reporting. The Walker Report (2009), the FSA Report into the failure of the Bank of Scotland (2011) and also the recent report by the Parliamentary Commission on Banking Standards entitled “HBOS: an accident waiting to happen” (PCBS, 2013), all have to some extent specifically focused on the problems of executive hegemony as previously outlined. There has, however, been very little research into the specific power dynamics, which may have led to executive domination of decision-making during the crisis outside of the single case reports such as the RBS and HBOS report previously mentioned. Both reports highlight the disproportionate power of executives, and its subsequent misuse as causative factors. Are the collective findings of these reports simply a description of one-off failures dominated by the poor behaviour of individuals involved, or are they systematic or wider problems in the way we govern our businesses? How power mediates governance practice is critical in understanding the rationale for these failures.

“Boards are the ultimate instrument of power in organisational settings and the character of power relationships, quests to build power and use it, represent

critical areas for theoretical enquiry and empirical inquiry” (Pettigrew, 1998: 199).

The reports into the failure of three of Britain’s largest banks yielded interesting conclusions for policy makers and academics alike. It is perhaps the case, that behaviours of institutional leaders have been demonised whilst there has been very little focus on the structural and regulatory conditions that allowed them to behave in the manner in which they did. In fact the Parliamentary Commission on Banking Standards (PCBS) report into the HBOS affair seems to indicate as much,

“The corporate governance of HBOS at board level serves as a model for the future, but not in the way in which Lord Stevenson and other former board members appear to see it. It represents a model of self-delusion, of the triumph of process over purpose” (PCBS, 2013:30)

The report then goes on to say,

“We are shocked and surprised that, even after the ship had run aground, so many of those on the bridge still seem keen to congratulate themselves on their collective navigational skills” (PCBS, 2013:30).

The concept of power therefore is central to the propositions of managerial hegemony theorists, power is not only an individual creation developed and wielded by an individual within a field, it is also structurally-embedded. For example, an executive director is more powerful than a non-executive director due to structural factors such as role position, access to information, level of expertise and the power of incentives, which are the foundations of the managerial hegemony school.

This notion of structural power is interesting, specifically when analysing the evolution of the UK’s code of corporate governance, and its effect on governance structuring. If there are fewer executives on a board of directors how does this mediate the power dynamics? Given the assumptions of managerial hegemony theory (Mace, 1971; Lorsch, 1989; Pettigrew, 1992; Finkelstein, 1992; Demb, 1992; Pettigrew and McNulty, 1995; McNulty and Pettigrew, 1996; Pettigrew, 1998), the assumption is that this elite group is proportionally more powerful, as this theory postulates that power is held by executive directors. There is therefore a very strong argument that this elite, hold a disproportionate share of power, and by proxy, influence. A prominent and growing seam of research has centred on elites in an organisational context (Maclean, Harvey & Press, (2006), Maclean *et al.* (2010), Clegg,

(1996), Reed, (2012), and Zald & Lounsbury, (2010)). This work will be examined in depth subsequently in this chapter but broadly speaking it postulates that,

“A very small number of dominant agents, operating at the life worlds of business, politics and governance, wield extraordinary amounts of corporate power and social influence” (Maclean *et al.*, 2010: 344).

This would suggest there is a smaller, more concentrated, elite group within an elite field at the top of British business, who are receiving increasingly large remuneration packages and who, theoretically at least, wield a disproportionately large amount of power. The constitution of power is something that will be further elaborated on later in this chapter and again in chapter 5. The propositions made by the managerial hegemony school are perhaps all the more relevant given the increasing size and complexity of modern organisations. “The larger and more conspicuous they become, the clearer it is they touch all of our lives” (Maclean *et al.*, 2006:19). If this is the case, then this provides further rationale for investigation in this area.

2.2.3 Accountability

It is traditionally assumed that governance relationships are focused between the principal (shareholders) and agents (directors) and that ensuring the agent is accountable to the principal is a key objective of such as system (Bearle and Means, 1932). This traditional view of humans as deterministic economic agents has been widely questioned in the literature e.g. (Roberts, 1991; Roberts, 1996; Roberts, 2001; Roberts, 2001b; Shearer, 2002; Roberts, McNulty & Stiles., 2005; Roberts, 2005; Young, 2006; Messner, 2009; Roberts, 2009; Roberts, 2010b; Roberts, 2012). However as will be examined, the model of corporate accountability is continually evolving, in part, as a result of changing ownership structures. Increasingly, investment chains are becoming longer, owners are therefore more remote, than traditionally modelled, and this obviously has implications for accountability relationships and the outcomes that are assumed that increased transparency will yield.

Accounting is not equivalent to accountability (Roberts, 2010b), producing and publishing financial reports is normatively understood as a method of conveying accountability, but Roberts (2010b) argued this is not always the case. As previously identified, the assumption of the efficient markets hypothesis is that the market will react either positively or negatively to the accounts produced annually and investors will seek to buy or sell the given stock and/or discipline/reward management based on results. Additionally there is assumed to be a strong connection between accounting and economic decision-making (Young 2005). There is a

growing literature that questions the primacy of agency theory and its assumptions in respect of corporate governance (Daily *et al.*, 2003; Roberts *et al.*, 2005; Cuevas-Rodríguez *et al.*, 2012). Increased disclosure requirements as directed by the UK corporate governance code have the objective of increasing transparency in the hope that that increased transparency will lead to increased accountability. However, it seems an unintended consequence of the increased disclosure has been the ‘bidding up’ of executive pay (Roberts, 2001b; Roberts *et al.*, 2005), inasmuch as executives benchmark their pay against one another, all competing, it is assumed, to be in the upper quartile. Therefore what was seen to be a mechanism to constrain executive remuneration has had exactly the opposite effect. This is what Roberts (2001b: 1558) has called “the self-fulfilling nature of agency theory assumptions”. Market mechanisms that are held to constrain opportunism, arguably feed it. It is not only in the sphere of remuneration where they may be unintended consequences of increasing accountability, there are other issues such as long term capabilities and goals of other stakeholder groups are often precluded in the name of increased accountability (Froud, Haslam, Johal & Williams, 2000).

Structural compliance with the combined code across a range of issues, both in governance and audit, likewise should not be confused with accountability. The idea that splitting the roles of chief executive and chairman, having more than fifty percent of NEDs on the board, or the existence and instrumental functioning of the various committees doesn’t necessarily increase accountability. This is part of the invisible power of accounting and regulation (Roberts, 1991), which convey assumptions of transparency and accountability, “Part of this invisibility lies in accounting’s capacity to present information as if it were objective fact. The detail can be contested but not its basic capacity to reflect the truth,” (Roberts, 1991: 359).

The publication of accounts, audit and accounting information merely animates the process of accountability. However, the language used portrays human beings as simple economic agents which is an unsophisticated representation of reality, “as a consequence, accounting promotes a style of accountability that falls short of our mutual responsibilities and our identities as more than just economic subjects” (Messner, 2009: 920). Therefore the position that accountability is more than just, “the duty to provide an account” (Gray, Owens & Adams, 1996: 38) is a powerful one laced with moral agency and complexity. Normatively, the presentation of accounting data is an external representation of business, and therefore there exists a personal disconnection with the contents of that account, but the literature recognises that providing an account means being responsible for (or internalising) the account or, “to be answerable for producing outputs or the use of resources to achieve certain ends” (Sinclair,

1995: 222). These issues are broadly referred to as *social accounting* (Gray, 2002), which identifies a broader conception of accountability than the economic-based view. In doing so, this literature “confronts questions of the origin and extent of collective moral agency” (Shearer, 2002: 543). In part this recognises that the discourse of economics is limited in terms of its narrow definition of accountability, and the moral obligation of accounting is one of a broader set of putative social obligations. This position essentially brings into focus traditional neoclassical economic identity and sense of ‘self’, which is synonymous with the theory of economic man as Shearer (2002: 548) explained.

“What is at stake is the very possibility that economic identity entails obligations and relations to others that extend beyond the descriptive and prescriptive domain of the [economic] theory itself.”

What constitutes these obligations depend on the entirely subjective obligations of the agents, whose collective morality are too disparate to support a unified position on ethics or morality. In a corporate setting, the implication is that its unlikely shareholders will arrive at a, “commonly agreed analysis... [and the unlikelihood of a] preferred view being selected” (Senge, 2006: 247).

So essentially the limits of accountability are based on the inability to provide a unified and coherent notion of *self* and the idea that narrative capacity, or the ability to give and account, is inherently limited, “There is a limit to what the ‘I’ can actually recount” (Butler, 2005: 66). In other words, accounts do not always lend themselves to story form, and moral judgements are best rendered intelligible through plausible and familiar language (Messner, 2009). The subject may or may not be possible to effectively narrate in this way. This is particularly relevant in giving accounts in textual form, such as those given in annual reports that are increasingly representing the human aspects of the corporation. Campbell, McPhail & Slack (2009) analysed the increasing use of faces in annual reports which, they suggested, represented “increasing humanisation of the visualised medium through which accountability is discharged... [that] conveys something about the kind of moral society we live in” (p. 926). This attempt to give an account of oneself, steps beyond what is possible in the written word which supports the organisational objectives by making a quasi-moral justification for its content.

2.2.4 Transparency

Transparency encourages an ideal, which seeks to promote certain standards, which are then internalised and set as benchmarks.

“The most potent disciplinary effects of accounting, and the processes of accountability that it organizes, are to be discerned in those who are ‘subject’ to the visibility that it creates and the constant surveillance that it makes possible.”
(Roberts, 2001b: 1553)

The proposals of the Cadbury committee rely on improved information to shareholders (for which, read greater transparency) creating accountability. But where is the evidence to suggest that such a relationship exists? Roberts (2009) vocalised what Cadbury had in mind, “this is precisely the promise of transparency as a mechanism of accountability; to cast light onto what would otherwise remain obscure or invisible, and to do so in order to provide the basis for confidence for the distant other” (Roberts, 2009: 957). The implication that NEDs are independent and hold management to account is far from universally accepted, while its accepted accountability is central to effective corporate governance, there has been very little attention paid to the process of how accountability actually works (Munro and Mouritsen, 1996).

Agency theorists view accountability as corrective action in response to the use of power. In this context, transparency is therefore an instrument of constraining self-interested behaviour and ensures that the behaviour of directors become socialised, with shame, pride and conscience acting as motivational levers (Roberts, 2001b). However these ‘levers’ are based on the normative assumptions that shame, pride and conscience elicit predictable behavioural responses, which as has been shown by some of the scandals (e.g. Enron, Maxwell, Northern Rock) to not always be the case. Roberts’ (1991) theory of accountability places the locus of agency with the individual, and not in an organisational context. From this perspective there is a reliance on individual behaviours to determine good governance.

Transparency has become one of the shibboleths of our era; the idea that greater openness will yield accountability, actioned through a number of normative mechanisms. “With every failure of governance we have been prone to invest in yet further transparency as the assumed remedy for all failures” (Roberts, 2009: 958). As will be examined in chapter 4 in much more depth, normative thinking suggests governance failures can be remedied through more disclosure, more transparency, “as if the solution lies simply in finding ways of seeing more sharply or more completely” (Roberts, 2009: 962), but transparency manifestly may not to be the panacea which policy-makers and politicians assume it to be.

One of the weaknesses of transparency, particularly in an organisational context, is Butler’s (2005) suggestion that it is impossible to fully give an account of oneself based on the

premise of the impossibility to present a self which is completely transparent to itself and therefore to others,

“My account of myself is partial, haunted by that for which I can devise no definitive story. I cannot explain why I have emerged in this way and my efforts at narrative reconstruction are already undergoing revision” (Butler, 2005:40).

Bulter drew on Freudian psychoanalysis to explain that we cannot know the drivers of our own agency. Nor can we explain the origins and construction of the categories which structure any account we make. Therefore, given this abstraction, any account we make fails as a result of this seemingly unavoidable opaqueness (Butler 2005). Does this acknowledgement of partial incoherence lead to a form of ‘moral narcissism’ to the extent it allows the manufacture of good appearances with no necessary reference to conduct and the actual effects of the decisions (Roberts, 2003)? Also in being transparent and therefore manufacturing good appearances, this may precipitate a form of blame avoidance (Hood, 2007). On a more elementary level, is the problem actually that transparency offers an over simplistic de-contextualisation of often, extremely complex issues (Strathern, 2004).

One of the assumed instruments of transparency is audit. Audit is not a subject which will be discussed on to any great extent in this thesis. Needless to say, however, audit functions to some extent as an instrument of transparency. The corporate failures of the late 1980s and early 1990s, previously highlighted, intensified demands for financial auditing and related forms of assurance (Power, 1999). Audit adds an assumed legitimacy through the assurance that the processes of making transparent. In undertaking the process of audit, the actual instrument of transparency is also being validated (Sikka, 2009). However, the perceived failure of audit has also received considerable attention not only in the press, but also in the academic field (Hinings, Greenwood & Cooper, 1999; Sikka, 2009; Whittle *et al.*, 2013; Whittle *et al.*, 2015). Auditors have status because they claim expertise which enables them to mediate uncertainty and construct independent and fair accounts of corporate affairs (Sikka, 2009), but these claims are frequently contested after auditor incompetence, frauds and corporate failures. In particular the financial crisis of 2007/8 illustrated that unqualified audit opinion is no protection against the erosion of confidence in the system. Michael Power (1999), former advisor to the UK national audit office, suggested that audit actually may have contributed to financial failure in the sense it only allows for the analysis of what he calls, “outcome based measures” (p.xvi). Therefore in defining outcome based measures as

auditable, it may perversely be contributing to the risk of failure. This position will be developed in chapter 6.

2.3 Inequality: why remuneration matters

For much of the 20th century the study of inequity has been ignored (Atkinson 2015).

Recently however, there have been a number of scholars who have produced important works which have sought to explain the reasons for, and the consequences of, rising inequality. Of these probably the most notable are that of Piketty (2014), Bourguignon (2015), Stiglitz (2004, 2015) Atkinson (2015) and Savage (2015). This corpus of work researches changes in wealth distribution and in particular, the compounding of capital[s] which exceeds the rate of growth (Piketty 2014). The authors argue that the income inequality has contributed to this, and that “top end¹²” (Savage 2015: 72) occupations have pulled away from other “occupations of supposedly equivalent skill, expertise and authority” (Savage 2015: 72).

An important point to make is that principally when inequality is discussed in this thesis, the discussion relates to inequality of income and to some extent, wealth (the distinction between the two is elaborated upon below), as this is the focus of many issues in this research.

However it is also worth briefly mentioning the many other forms of inequality exist which are interrelated with income inequality. Non-monetary inequality such as the social exclusion caused by unemployment is difficult to measure (Bourguignon, 2015) and other forms of non-monetary inequality have received far less scholarly attention than income inequality, for instance job precariousness, intergenerational inequality or equality of opportunity all defy simplistic interpretation as Bourguignon (2015: 68) explained, “because studies with access to sufficient data are infrequent, it is difficult to attempt to make comparisons over time”. This is not to suggest they are not important (as they are arguably are directly related to the dispersion and resulting transmutability of capital[s] discussed in section 2.7 and then again, later in the thesis), but they are less relevant to this research than income and wealth, as these are (more) intimately related to remuneration.

One of the central motifs of Bourguignon’s (2015) work, is that diminishing inequality between countries has fed rising inequality within individual nations. This has been as result, he argued, of increasing globalisation and the accumulation of capital wealth, which tends to compound (as a result of capital gains), amongst a global elite (this was actually also a key supposition of Marx’s work). For example, in the United States the top 1% of wage earners

¹² CEOs, directors and presidents (Savage 2015)

receive 15% of all household income, whilst also possessing 35% of all wealth¹³ and these numbers have been increasing since 1970 (Bourguignon, 2015). Piketty corroborated these sentiments when stating, “the bottom 50% of the wealth distribution owns nothing at all, or almost nothing,” (Piketty 2014: 244) whilst “the richest 10% command 62% of total wealth” (Piketty 2014: 257). So therefore, although income is increasingly unevenly distributed, this is even more highly magnified with respect to wealth. The link between these statistics and levels of executive remuneration is important to note.

“Recent research based on matching declared income on tax returns with corporate compensation records, allows me to state that the vast majority (60 to 70 percent, depending on what definition one chooses) of the top 0.1 percent of the income hierarchy in 2000-2010 consists of top managers... in this sense the new US inequality has much more to do with the advent of ‘super-managers’ than with that of ‘superstars’” (Piketty, 2014: 302-303).

Piketty’s identification of the relationship between corporate remuneration and inequality noted above, are corroborated by a number of other studies. Of note is that of Allen (2011) who, in his wide ranging enquiry into the causes of, and solutions to, inequality notes, “the earnings gradient has become tilted in favour of superstars¹⁴” and “top earners have caught up with, or overtaken, those living off capital income” (pp 107-108). Research by Lemieux, Macleod & Parent (2007) suggests the increasing use of performance related pay (outlined in section 2.6) can explain 24% of the growth in males wages between the late 1970s and early 1990s and accounts for nearly all of the top end growth in wage dispersion (above the 80th percentile). Essentially, this body of research proposes that a key factor in increasing inequality is the increasing use of performance related pay despite the observation that such schemes do not match the marginal productivity of the worker (Lemieux *et al.* 2007). Other notable research, conducted by Piketty & Saez (2006), found top wage earners have replaced capital income earners at the top of the income distribution. In other words, increases in top wages are accountable for increasing inequality, to a greater extent, than income generated from capital, in the UK and US.

¹³ Wealth is different from income and is defined as “the richness of individuals or the value of their property less outstanding debts” (Bourguignon 2015: 58). Piketty (2013) claims this figure is actually much higher than Bourguignon figure at 45-50%. (see page 294 of ‘Capital’)

¹⁴ The author’s reference to superstars denotes CEOs, hedge fund managers and footballers. See Allen (2011: 108).

These issues described above will be discussed in greater detail in section 2.6, but they are relevant as they highlight the importance of executive remuneration not only for a small handful of highly paid people, but their substantive contribution to increasing inequality more broadly. The next section will discuss the ramifications for the wider socio-economic system of the suggested relationship between inequality and executive remuneration.

In the UK, since 1998, average FTSE 100 CEO remuneration has increased from £1,000,000 to £4,500,000 in 2012, whilst the ratio of CEO pay to the average worker has gone from 47:1 in 1998 to 133:1 in 2012 (HPC, 2013). These figures describe a trend, which is not unique to the United Kingdom. In fact, issues of wage inequality have been discussed much throughout much of the western world.

One of the principle reasons why executive remuneration is more than simply a symbolic issue, is because its effects are not limited to the executive cohort whom it directly effects. It also has implications for shareholder value. The basic argument is that in overpaying executives, the shareholders lose out in terms of long-term shareholder value. But if inappropriate remuneration instruments are implemented, the company will not perform as well as it could, because executives are not adequately rewarded. However, the issue is more complex than these binary outcomes. The level and method of remunerating workers in society touches on key themes of the meritocratic society on which the western version of capitalism is (supposedly) predicated. It is arguably problematic to separate these issues from the wider issues of justice, fairness and equality.

In addition to the so-called ‘fairness’ based approaches to remuneration (Wade et al., 2006) there is also another school of thought, not centred in social philosophy, but in economics. Data from the Institute for Fiscal Studies (2012) describes rising inequality of income in the UK. It shows a 50% increase in inequality using the gini coefficient, moving from 0.26 in the 1970s to 0.36 in 2009/10 (a gini value of zero describes a situation of no inequality). If this data is cross referenced with data from the High Pay Centre the data presented previously pertaining to inequality, then not only is business remunerating the executive class more than any other class of worker, but this increasing inequality is mirrored in society more generally. This is perhaps an inherently unsustainable situation as pointed out, somewhat melodramatically, by Hanauer (2014) in the context of the United States.

“If we don’t do something to fix the glaring inequities in this [the US] economy, the pitchforks are going to come for us. No society can sustain this kind of rising

inequality. You show me a highly unequal society, and I will show you a police state. Or an uprising. There are no counter examples. None. It's not if, it's when."

A more modern incarnation of this is represented by the increasing levels of executive pay which are perhaps, evidence of elite cohorts seeking to enrich themselves. This is the foundation of the 'managerial power thesis' (Bebchuk and Fried, 2004) but is also akin to the position taken by many of the managerial hegemony scholars introduced in section 2.2.2 (i.e. that directors have the powers to enrich themselves and will do so without appropriate checks and balances). Indeed, the reason why inequality and remuneration are directly related to one another, is because the compounding nature of economic capital which increases the, "scope for *rentier revenue* [...] which explains the mushrooming economic capital of the top layers of income distribution" (Savage 2015: 400). Therefore in summary, this short section has illustrated that extant research has shown that the growth of wages at the top of the income distribution, directly effects levels of inequality, through the allocation and resulting compounding of capitals. The extent to which this may or may not be problematic in a wider social sense, is now briefly debated.

2.3.1 Social systems and corporate governance

Any discussion of corporate governance is only contextually relevant. Countries have various political and economic predilections which reflect their attitudes to corporate governance (Charkham, 2008) which leads to each country having, "a system of corporate governance in its own image" (Maclean 1999: 88). The principles on which the UK corporate governance framework is based, characterised by the owner fiduciary model, are grounded in neoliberal preferences for governance by experts, elites and by judicial process, the rule of law and the primacy of executive order (Charkham 2008). The relationship between governance systems and political ideology is therefore why this section is important with reference to the wider debates in this thesis, as Maclean explains,

"The systems of corporate governance, concerning the exercise of power at the level of the corporate entity, which have operated in these countries since the end of the second world war have been moulded by the capitalist creed to which these nations adhere" (Maclean, 1999: 88).

The presupposition on which this research is based, is therefore very much based on the observation that political ideology and governance systems enjoy a broadly symbiotic and mutually-supportive relationship, which has been figuratively illustrated in Figure 6.

The governance of institutions which were formally publicly owned, is of particular relevance to this research. The imposition of markets in energy, water and healthcare, which were nationalised in the 1980s and 1990s (indeed this process has continued apace), led to the unique trajectory of the system of corporate governance in the UK (this institutional evolution is elaborated upon in chapter 4). These privatisations, and the subsequent enrichment of the executives, who were formally modestly paid civil servants, were one of the antecedents of the Greenbury report (this will be further elaborated upon in section 5.2). Of particular note was the perceived excessive pay of Cedric Brown (Ward 1995), who was the CEO of British Gas when it was privatised in the early 1990s, however as will be later examined, there are numerous other similar cases at the time.

Therefore any analysis of governance structures (in particular remuneration structures and norms) would not be complete without a consideration of the wider socio-economic and political landscape to which its ideas are fundamentally wed. Capitalism has arguably become so deeply embedded in citizens' consciousness in the western world that its taken-for-granted assumptions, are now dominant themes in political and corporate milieus (this is discussed in chapter 6 with reference to the notions of merit and talent). Successive governments, of all colours, have engaged with neoliberalism based on monetarist policies.

The central premise of such a view is that, "inequalities are desirable insofar as they act to motivate people to work hard, be ambitious and strive to innovate" (Savage 2105: 398). This research questions the normatively construed relationship between pay and performance and remuneration and merit, which have become fundamentally wed to the wider social system and, as will be explained, have given rise to increasing levels of inequality.

2.4 The changing model of ownership: new finance capitalism and financialization

The changing ownership profile of FTSE 100 companies is an important feature which complicates the agency relationship which was previously outlined in section 2.2.1. The dispersion of ownership has increased dramatically since Bearle and Means (1932) first wrote about the modern corporation. With this dispersion of ownership has come a concomitant separation of ownership from control (Solomon, 2011). In the UK, a dominant feature of the changing ownership model is the rise of institutional investors and in particular foreign ownership. By 2012, 53% of all UK equities were owned by institutions or individuals based outside of the UK (ONS 2012). Institutional investors may include a variety of different forms of investor such as pension funds, hedge funds or investment companies. The Hampel report

(1998), reported that at least 60% of all UK equities are controlled by institutional investors¹⁵ in 1998. It is evident, then, that institutional ownership now forms a significant proportion of all shareholdings, and as such the way these institutions engage with their companies, and the rules and legislations to which they are subservient to, are of critical importance

The rise of institutional ownership has caused a number of issues which undermine traditional principal/agent relations. For instance, there is often little incentive to exercise a voice concerning a companies' direction, and given the barriers in terms of transaction costs to mobilising opinion then a more attractive option may simply be to sell the shares ('exit') should there be a conflict (Keasey and Wright, 1993).

Given that institutional investors are the dominant owners of many listed public companies, then it is important to understand the relationship between the asset managers, who are the *de facto* owners of the assets, and the directors of the companies, which they collectively own. Several UK based studies of FTSE institutional investors have found funds have little control over executive decision making e.g. Faccio and Lasfer (2000), Tilba and McNulty (2012). Furthermore, it may be that the results of such disengagement are representative of a '*new finance capitalism*' characterised by increasingly concentrated fund ownership which tend to be under engaged with companies and lack voice (Davis, 2008; Davis, 2009). This has therefore evolved into a system where *accountability is divorced from responsibility*. In other words, the long term responsibility of these owners is an objective which conflicts with the objectives of the beneficiaries to whom they are responsible (Hendry *et al.*, 2006). For instance, there exists a conflict between the impetus for increasing quarterly profits and true long-term oversight. This dichotomy is characterised by the average duration of equity holding in the UK, which has fallen from 5 years in 1960 to 7 months in 2009 (Haldane and Davies, 2011). Jackson (2008) reported that Fidelity International, who are one of the UK's leading investment management firms, churned 44% of their share portfolio in 2006. There is seemingly a new type of 'investor' who speculates against market trends or on negative performance using complex financial instruments (Jackson, 2008). A number of scholars have noted that institutional investors are growing in the size and concentration of their investments, the ownership is often short-term, liquid and without commitment (Davis, 2008; Jackson, 2008). Indeed in the UK, the Kay Report of 2012 articulated these concerns, "the

¹⁵ See Hampel (1998) p40 paragraph 5.1.

imperatives of the business model of the agent, do not necessarily coincide with the interests of the ultimate principals” (Kay 2012: 30).

For example, it is not uncommon for institutions or indeed private individuals to increasingly use contracts for difference (CFD) as an instrument to trade. Trading in this way means a bet is placed on which direction a share price will move in the hope of profiting from that bet. If the CFD represents a short (negative) position the objective is buy back the asset borrowed at a lower price and profit from the difference. The key point to make is that the underlying asset is never purchased, the share are loaned to you by the institution who is the trustee of the shares (possibly against the knowledge of the beneficiary if the shares are held in a nominee account, which is increasingly the way many private investors chose to hold their investments). Trading in this way undermines the principal – agent supposition outlined previously in that it not only allows profit from the firm’s poor performance in terms of the share price decline but the underlying asset is also not normally purchased thus there are no voting rights involved in the transaction. Indeed on a policy level this has been identified as a pernicious influence (Kay, 2012). Attempts to ban so called, *naked short selling* have ended up in the European court of justice, whilst the UK government attempts to block the EU’s attempt to outlaw such practices¹⁶. The criticism levied against such practices are summed up by Prof. Kay in this report in that shorting, “ implies a lack of trust and confidence in, and respect for, the management of the company whose shares are sold” (Kay 2012: 69). Such sentiments have led to a ban of the practice in a number of European countries (ESMA 2011)

Therefore this concept of a, ‘*new finance capitalism*’ (Davis, 2008; Davis, 2009) is a powerful one which has profound implications for traditional governance structures. The UK is arguably now a post industrial economy with a huge reliance on the service and financial sectors. Davis (2009) argued, [in the context of the United States] that the growth of finance is personified by increased levels of institutional investment, which has led to an, “overriding corporate focus on shareholder value as the ultimate measure of corporate and managerial performance” (Davis, 2009: 28). Arguably this view of the corporation contributed to the financial crisis in 2007 and 2008, and therefore perhaps there is a need to radically rethink how organisations are governed in the years to come? In a similar fashion to Davis’s idea of a *new finance capitalism*, former prime ministerial advisor Sir Ferdinand Mount, has

¹⁶ The proposed ban would give the EU the right to impose a ban on short selling in what it deems to be an ‘emergency’. See: <http://www.ft.com/cms/s/0/68cbcb64-834c-11e3-aa65-00144feab7de.html?siteedition=uk#axzz2rgv74ukQ>

characterised the changing ownership model of UK firms as the “twilight of the shareholder” (Mount 2012: 31) as outlined below.

“We pretend that the shareholders possess powers that they effectively lost long ago, and we imagine that the behaviour of the corporation is disciplined by an array of checks and balances that are often no more than decorative today”
(Mount, 2012: 43).

The concept of a *new finance capitalism* outlined above is congruent with the idea of *Financialization* (Epstein, 2005; Harvey, 2005). Simply put, this concept notes the increased number of intermediaries in modern day capitalism whose role is not associated with the management of conventional hierarchies. The growth of finance whose ends are, “contradictory and non-totalising” (Savage & Williams, 2008: 9), has led to the, “radical reconstruction of class relations through financialization” (Harvey 2005: 98). This is facilitated, in part, by the gradual change in employment relationships from one where the industrial enterprise was the foundation of society and provided job security, career mobility and pensions, to a more contractual and individualistic relationship (Hutton 1997, 2012). The ‘precariat’ (Savage 2015) have thus become a large social group in the UK, they are, “people living and working precariously, usually in a series of short term jobs, without recourse to stable occupational identities or careers, social protection or relevant protective regulation” (Savage 2015: 351). There is therefore a theme in the literature, which has highlighted systemic changes in the relationship stakeholders have with organisations more generally. Organisations are considered a commodity to be bought and sold, to yield profits for shareholders, not an integral part of society, which represents a central part of the common good of a population. This change is extremely important to note in respect of corporate governance, because by implication, the objectives and governance of organisations and their management are mediated by the *raison d’etre*.

2.4.1 Asset management

One of the principle focuses of the 2012 Kay report, which is examined in section 4.3.8 in more detail, was the (mis)alignment of incentives in the investment chain. As previously identified there has been an evolution in the profile of shareholders of large firms since Cadbury (1992) and Greenbury (1995). As noted above, increasingly institutional investors hold larger proportions of the issued equity and this intermediation makes them important actors in the governance of the companies, which they hold an interest in. This short section

therefore is about the evolving model of ownership in the UK, and its effects on corporate governance.

One of the most fundamental issues in the role of asset management is that the payment structure is based on commission, once invested doing nothing will not generate revenue for the asset manager or their company, “It requires great strength of character to advise a client to do nothing, and few clients will pay much for that advice” (Kay, 2012: 80). Therefore the key issue is how to appropriately incentivise not only the directors of the business, but the *de facto* owners of the asset, the asset managers, to ensure the best ‘long-term’ interests of both the company and shareholder are pursued. The conflict of interest is clear, on one hand there is the agent managing the asset who is motivated to produce results on a quarterly basis, partly as a result of the quarterly reporting obligations in the UK¹⁷, whilst the actual owner of the asset is an individual who may retire 10 or 20 years in the future. Kay referred to the issue as *cultural*, but may be considered to be a systemic failure of modern equity markets,

“A culture which emphasised trust relationships was replaced by one which gave primacy to trading. The trading culture has influenced the behaviour of market users – companies and savers – as well as market intermediaries. In the long run the outcome has benefited market participants rather than market users.” (Kay, 2012: 86)

Therefore research question 4 originates from the paradox highlighted above. The main patterns and drivers in corporate governance and executive reward are inherently related. The objectives of the agent and principal are often characterised as one and the same, but they are possibly not?

The idea is Britain’s financial system, unlike its European partners, requires such high rates or return on capital, that lower yielding, often long term projects, are left on the shelf in favour of projects that produce greater short-term returns (Figures 1 and 2 illustrate this). The argument follows that the greater liquidity of the asset, the higher rate of return on capital required, because of the increased competition for capital as a result of liquid markets. The City of London’s international outlook is therefore a handicap to stability and long termism as capital is forced to compete globally in a multitude of markets. Critics of such a relationship

¹⁷ This requirement has recently been repealed in the UK.

cite that the inverse is often true as investors will be willing to accept lower returns in return for high liquidity; for example cash is the most liquid of all assets and has, historically, a lower return vis-à-vis equities. Congdon (1997) argues higher liquidity, actually reduces the required rate of return on capital,

“A large part of the valuation premium commanded by quoted companies is that it is easier to buy and sell their shares. As the higher valuation of corporate equity reduces the cost of finance, the required return on capital is lowered by the extra liquidity conferred by a stock market quotation” (Congdon, 1997: 26).

Therefore the rate of return on physical capital is different from the return on quoted equities. Physical capital is concerned with profits after costs whilst return from equities are concerned with not only the dividend yield, but also the absolute value of the equity: the market capitalisation of the business and thus the value of the investment. A system used to value investments can be calculated through the price/earnings ratio (P/E ratio). Therefore while yields from equity have been around 10% per annum since 1979, return on ‘physical capital’ has been much lower¹⁸ (OECD, 1998). The starkly obvious conclusion to draw therefore is that because the differential between returns on quoted equities and physical capital in the UK, is so large then this leads to under investment which seems to be borne out by the OECD statistics (see figure 1 and 2).

There is a strong argument that increased levels of trading also undermines the principal agent relationship, and therein normative governance mechanisms presupposed by Agency theorists. Kay (2012) reports that 72% of the total volume of trades on the London stock exchange are HFTs (high frequency trades) which are often automated trading algorithms that are operated based on mathematical models. Obviously this sort of trading technique has no consideration for the underlying assets or strategy of the business, either in the long, or for that matter, short-term. These shares are often loaned or borrowed from the asset holder who will have no knowledge that their asset has been loaned¹⁹ by the financial institution who holds the shares

¹⁸ “Overall business investment as a per cent of GDP was consistently among the lowest in the OECD until the mid-1980s (Table 11). This could be a reflection of relatively low trend growth as much as a source of slow growth of potential output.” (OECD 1998) p147

¹⁹ As a private investor when you purchase shares through an asset manager these are normally held in what’s called a ‘nominee account’ which allows shareholders to hold shares without the associated administration or paperwork. Although the investor is the legal owner of the asset, their names do not appear on the share register and therefore their voting rights are relinquished. This undermines the rights of the shareholder is so much as they are unable to act as ‘owners’ of the asset to which they are the own.

in proxy. The government has identified such practice as an issue and commissioned a study headed by Professor Sir John Beddington who published a report entitled ‘The future of computer trading in financial markets’ in 2012. The results indicated that although there are positive features of HFTs such as increased liquidity and reduced bid/ask spreads, there are also dangers. The report listed a number of recommendations but highlighted the dangers of high frequency trading,

“Over coming decades, the increasing use of computers and information technology in financial systems is likely to make them more, rather than less complex. Such complexity will reinforce information asymmetries and cause principal/agent problems.” (Beddington, 2012: 15).

There is also another behavioural strand of research that examines the effect of short selling on the decision-making behaviours of directors. There is an argument that in allowing short-selling, markets are reducing the potential for fraudulent activity by punishing companies with weaker accounting practices. In other words, directors are less likely to manipulate accounting numbers based on the observation they will be more heavily punished for it in the market (Massa, Zhang & Zhang, 2014). This has led some to claim it that it actually contributes to market efficiency (Saffi & Sigurdsson, 2010). Therefore the assumption is that short-selling makes it more costly for shareholders to ignore, ‘bad governance’ and therefore can lead to improvement in the prevailing standards of governance. Massa *et al.* (2014) therefore proposed that short-selling effects the way directors behave in so much as it acts as disciplining mechanism. While this theory may have some behavioural foundation, it does not consider the problematic nature of principal/agent relations originally identified. For these findings to be valid it assumes shareholders actually hold directors to account in the first instance (an assumption which is questionable).

It was outlined at the beginning of this section that research has indicated that the ‘owners’ of corporations are somewhat less concerned with their ownership responsibilities and more concerned with financial benchmarking. How can this gap be bridged? Is it desirable to do so in the first instance? This is an important area of debate for policy makers and academics alike and one that will be further debate in chapter 6.

2.5 Remuneration committees

The Greenbury report of 1995 recommended the establishment of remuneration committees composed exclusively of non-executive directors. These committees would be sub-

committees of the main board of directors and in addition to setting pay they would produce a remuneration report in the annual report, including information for shareholders of how they reached their decisions on executive value. There are two important theoretical characteristics of this design. First, to eliminate agency issues associated with executive directors setting their own levels of remuneration, and therein establish appropriate levels in an allegedly impartial manner. The second theoretical premise was that in publishing a report in a transparent way, this would lead to greater levels of accountability, and thus moderate unjustified and ostensibly excessive levels of pay.

After Greenbury, remuneration committees became the decision makers on corporate remuneration practices. But are they effective in moderating executive excess and what influences do they exert? Prior to the Greenbury provisions coming into force, Main and Johnston (1993) found that levels of pay in organisations with remuneration committees were actually substantially higher than those without one. However, more fundamentally, the effectiveness of a remuneration committee is directly related to the ability of the shareholder to hold the committee to account. Does institutional passiveness and a lack of engagement as identified *inter alia* by Tilba & McNulty (2012) in section 2.5 among others, act as a means by which remuneration committees can exercise absolute discretion over the pay of the executive board? It would seem that in many cases, this is indeed the case.

In a study by Conyon & Sadler (2010) of shareholder voting trends, it was reported that less than 7% of shareholders either abstained or voted against the director's remuneration report resolution (DRR) and that this percentage fell between 2002 and 2007. This research also suggests increasing passivity across a range of issues, not specifically limited related to matters of remuneration. Voting on dividends (0.4% dissention), on the re-election of directors (3% dissention) and reappointment of auditors (1.3% dissention) (Conyon & Sadler 2010), all corroborate the lack of engagement observed by other more interpretive studies, such as Tilba & McNulty (2012).

A study by Goergen and Renneboog (1999) corroborates these findings in terms of the tendency of institutions to exercise voting rights and therefore its direct effect on the power of directors, "The passive stance adopted by institutional investors increases the already significant power of directors" (Goergen and Renneboog, 1999: 259). There is also a question mark over whether remuneration committees are the best instruments for designing executive remuneration at all, based on the observation that they are not necessarily 'independent' in a

structural sense. The concept of structural and behavioural independence is developed in chapter 4. Mount (2012) summarised the issue well,

“These remuneration committees were intended to be impartial bodies, composed of non-executive directors who had no personal interest in the outcome. This was a naive hope. For the non-executive directors were to be nominated by the existing executive directors, who, not surprisingly, chose people very much like themselves... This mutual admiration society – and mutual remuneration network – could scarcely be expected to take an austere view of their colleagues personal needs, and in most cases they did not” (Mount, 2012: 47).

2.5.1 Engagement with remuneration committees

Much of the literature in this area seems to define institutional investors as either active or passive, which seems reductionist, given the range of intervention methods open to the investor. How can active and passive be thought of, or quantified? Hendry *et al.* (2006) examined institutional approaches to ownership and tried to explain the taxonomy of passivity or activeness. The study they conducted actually found many ‘owners’ only to be active “to satisfy their client’s needs to be seen to be pursuing ‘responsible ownership’, or as a way of imposing pressure to salvage... a losing position” (Hendry *et al.*, 2006: 1122). Furthermore they found investors seemed to take their ownership functions, “very reluctantly and as a last resort” (p. 1122). Other authors have identified this situation as a result of the ‘free rider’ problem (Shleifer and Vishny, 1997). Essentially this postulates that barriers to participation such as cost, information complexity and practical difficulties make it “uninteresting for them to learn about the firms they have financed, or even to participate in the governance” (Shleifer and Vishny, 1997: 741).

There is a counter narrative, however, which portrays investors equally as long-term owners, not simply traders speculating on companies, “like transactions is a betting shop” (Kay 2003: 235). Increasing engagement is often used as a means for achieving broad social and economic objectives, particularly in relation to CSR (Martin *et al.*, 2007). The global CSR movement is seeking to encourage engagement as part of a broader conception of corporate responsibility (Aguilera and Cuervo-Cazurra, 2004). However this movement will need to overcome issues associated with the free rider problems identified above, and this may require substantive changes to the way organisations are governed if their objectives are to be achieved.

To add additional complexity to the relationship between owners and executives, research by Tilba and McNulty (2012) suggested that the fund manager who manages the underlying asset, may have investments in up to 160 firms simultaneously. This, accordingly, raises practical questions relating to the ability of the owners to not only effectively monitor, but to intervene in organisational matters in the assumed manner.

Public concern regarding executive remuneration and the importance of matching pay with long-term performance was the focus of the Kay Review (2012), although this is only the most recent report that has sought to address the series of reoccurring concerns which play out in the business press. The business landscape has also changed fundamentally since Bearle and Means (1932) first published their work. Indeed it has changed significantly since Useem's (1984) important work discussed such agency issues with a corporate focus. In 2012, the UK's ONS reported that 53.2% of UK quoted shares were held by foreigners, increased from 30.7% in 1998 and that, "shares are increasingly held in multiple ownership pooled accounts where the beneficial owner is unknown. These accounted for an estimated 59.4% of the total holdings by value at the end of 2012, up from 44.9% at the end of 2010" (ONS, 2012: 1). The *global superfirms*, such as found in the UK FTSE 100, has evolved rapidly and substantially in the past fifteen years to the extent that the capitalisation of the top 10 companies on the FTSE now form almost 50% of the capitalisation of the entire index (see Figure 19 located in chapter 6).

Arguably, the governance framework has not evolved in a way that is consistent with the changing profile of these companies. Can a unitary board structure still provide effective governance, as opposed to a system where accountability is diverged from responsibility and if not, what should the regulation look like?

2.6 Remuneration, performance and incentives: a review

This next section of this chapter is devoted to reviewing the literature on remuneration, performance and incentives. The rationale for research question 3 (RQ3) evolved from the review undertaken in this section of the chapter. There is a large body of work which covers the diverse approaches to its study which this section addresses in turn; these include the relationship between pay and performance, the structure executive reward, in particular long term incentive plans and options. Finally the concept of marginal productivity which is at the heart of many debates surrounding remuneration is touched upon.

As previously noted in this chapter, agency theorists such as Jensen and Meckling (1976) suggested that by adjusting the size of the remuneration package, individual performance can

be moderated; the argument of marginal productivity. This ‘optimal contracting’ view suggests packages should therefore be designed to maximise shareholder value, whilst minimising the costs of doing so (Mirrlees 1976, Laffont & Martimort 2002). It is a commonly espoused view that high pay is desirable if it is linked to performance and normative thinking suggests corporate profits are *prima facie* the most important objective of organisations. As recently as 2012, the Kay Review confirmed that one of the principles of remuneration is that any bonus paid in the equity investment chain must closely match performance,

“[any bonuses paid] *should be closely related to the agent’s performance... successful performance is inherently rewarding and the prospect of such a reward provided effective alignment of private and public interest*” (Kay, 2012: 77).

This position can have its antecedents traced to the Greenbury report, which stated that a principle objective of remuneration committees should be to encourage a link between rewards and performance²⁰. However this assumption is not a universally recognised one in the literature and the question of the link between pay and performance is at best, a contested one.

Research has shown that very high level rewards may have a detrimental effect on performance (Ariely, Bracha & Meier, 2009) and that incentives are only weak re-enforcers in the short term (Jensen & Murphy 1990) and will act as negative reinforces in the long-run (Tirole, 2002; Benabou & Tirole, 2003). More recent work from Roberts, (2010a) found agency theory had failed inasmuch as the large incentives offered to executives may have exacerbated poor behaviours, which may have led in part to the 2007/8 crisis. There have been a number of influential works, which may, to some extent, reinforce Roberts’s comments, namely Herzberg (1966) and Herzberg & Mausner (1978) who concluded that although a low salary may result in dissatisfaction at work, a high salary was not necessarily shown to have an opposite effect. So, therefore, the argument that high levels of pay are required to motivate executives is ambiguous at best.

2.6.1 Performance-related pay

There is large canon of work which has examined the relationship between pay and performance in a modern organisational context, but the approach taken by various scholars is diverse. Executive remuneration has been a prominent area of discussion both within the

²⁰ See page 11, section 1.15 of Greenbury (1995).

popular media and, to a lesser extent, within academia. Gomez-Mejia et al. (2010) compiled a comprehensive literature review on the subject (see pages 117-140 of that work) but there have also been a number of important works which have broadened the now extensive corpus of literature. See for instance: Jensen & Murphy (1990), Conyon and Leech (1994), Goergen & Renneboog (1999), Conyon & Murphy (2000), Franks, Mayer & Renneboog (2001), Lemieu, Macleod & Parent (2007), Gregg, Jewel & Tonks (2012),

In examining purely executive remuneration in the UK, the High Pay Commission (2012) found no evidence, that linking pay and corporate performance was effective. In the context of the US other scholars have found similar trends. A case study examining remuneration at failed US financial firms, Bear Sterns and Lehman Brothers, found the assumed relationship between value reinforcing wage structures and performance to be incorrect (Bebchuk *et al.*, 2010). The assumption of a relationship between remuneration and performance has resulted in increasingly complex remuneration instruments being applied by companies. Data indicates that although total earnings (EPS) have increased 108% between 2000 and 2010, earnings from LTIPs have increased 253.5% whilst bonuses have increased by 187% for all FTSE 350 directors (HPC, 2012). This means that as a percentage of the overall director's package, a greater proportion, and for that matter a greater headline figure, is being paid in an attempt to align performance with pay. All of this is despite limited evidence linking the activities of the individual executive with the performance of the company. Indeed studies such as Gregg et al. (2012) found that firm size was a greater predictor of remuneration levels than performance was, "It would appear that the mechanism for such an impact is not thorough the relationship between executive pay and stock market performance, but instead through the incentive for executives to ensure that their firms assets are as large a possible" (Gregg *et al.* 2012: 117).

There is a possibility that the use of various incentive schemes may actually lead to lower levels of corporate performance (Yermack 2006). Certain remuneration measures can lead to financial misrepresentations (Harris and Bromiley, 2007), which may lead to a compromised long-term profitability of the business. "Substantial value destruction is linked to financial misrepresentation, which, in turn, is shown to arise from executive incentive pay, illustrating one causal path by which incentive pay can eventually impair performance" (Harris, 2009: 153). Harris and Bromiley (2007) illustrated this with large sample evidence that the adoption of high levels of executive share options substantially increases the probability of corporate financial misrepresentation. Indeed Harris (2009: 152) suggested that shareholders are "naïve" if they believe that incentives will lead to true value enhancement of the business and not simply to behaviours which trigger pay-outs for management, "acknowledging that incentives

may prompt unethical conduct, the relative magnitude of incentives should also serve as a predictor of financial misrepresentation” (Harris 2009: 152).

Other empirical work suggested a weak pay performance relationship (Jensen and Murphy, 1990; Gregg *et al.*, 1993, Gregg *et al.* 2012). Of particular pertinence is the lack of a relationship between pay and performance during some of the recent economic downturns, for instance during the periods 1988-91 (Gregg *et al.*, 1993) and 2007-2010 (IDS, 2011) where hundreds of companies experienced cash flow pressures, and many thousands of people lost their jobs. During this time, aggregated executive pay actually increased. All this was despite poor corporate earnings and a real terms wage cut for many in the workforce (post 2008).

A potential explanation for these findings may be a study by Gregg, Machin & Szymanski (2012), which found pay/performance symmetries when stock returns were high, but pay was less sensitive to performance, when stock returns were low. This asymmetry may exist as a result of the one sided risk model adopted by most companies as a result of the Greenbury recommendations. For example, the provisions may lead to excessive risk taking by executives who have everything to gain for outperformance, but comparatively little to lose should levels of performance be more modest. An interesting study on 390 FTSE UK non-financial firm CEOs conducted by Ozkan (2011) found lower pay/performance elasticity than similar US based studies, such as Conyon & Murphy (2000). This arguably raises questions about the effectiveness of the UK governance reports in their attempts to prescribe behaviour.

The literature in this area is however is not entirely conclusive. There has been criticism of literature pointing to studies which suggest weak pay and performance measurements, such as that of the highly cited work of Bebchuk & Fried (2003). In particular Edmand & Gabaix (2009: 494) suggest that it is necessary to incorporate “complex, but realistic, aspects of the employment relationship” such as the structure of pay, industry dynamics and pension benefits²¹ into any computation. The authors claim these issues are relevant in so much as many studies which examine pay and performance only use equity like instruments in their analysis. Other work also supports the complexity of the topic and suggest the caution which must be employed when making definitive statements. For instance (Manso, 2011) shows that if the CEO can save privately he will undo any contracts that involve deferred benefits and thus will exude a bias to be less innovative. The author suggests this can be mitigated,

²¹ This is referred to as ‘inside debt’ in the paper, that is, debt owned by the manager, rather than external investors (see page 492).

“optimal innovation-motivating incentive scheme can be implemented via a combination of stock options with long vesting periods, option repricing, golden parachutes, and managerial entrenchment” (Manso, 2011: 1823).

2.6.2 Instruments of executive reward: Long term incentive plans (LTIPs) and options.

Most FTSE 100 companies have adopted performance-related pay in the form of what is commonly referred to as “long term incentive plans” (LTIPs). There has been noteworthy research, which advanced the proposition that the widespread use of LTIPs actually contributes to inflation on executive pay. The first study which examines the widespread use of LTIPs since Greenbury, was completed by Buck, Bruce, Main & Udueni (2003) who found that the use of LTIPs were associated with higher levels of absolute reward, but lower levels of pay to performance sensitivity (see p. 1723). Other studies have suggested that the rise in the absolute level of pay is attributable to the executive cohort, “demanding large premiums for accepting stock options in lieu of cash compensation” (Hall & Murphy, 2002: 37). This, in turn, may lead to questions not only about the behaviour-inducing capability of such pay practices, but also the cost effectiveness to the company (Meulbroek, 2000) and its shareholders. Therefore, although many of the policy documents, including the UK code itself, suggests that traditional agency assumptions which underpin the theoretical pay/performance relationship are valid, there is increasing evidence that they are not. This may be attributable to the observation that executives themselves perceive long term incentives to be effective (Pepper & Gore, 2013) despite evidence suggesting that that they are not effective in meeting their objectives (Pepper, Gore & Crossman., 2013). In fact there is there was some large sample evidence, suggesting that high levels of performance related remuneration actually increases the probability of financial misrepresentation (Harris and Bromiley, 2007).

There is some evidence that company size is a better indicator of executive remuneration levels than a company’s performance. Both Ozkan (2011) and Gregg *et al.* (2012) found this to be the case, and correspondingly that these larger companies, tended to have larger boards. Whether the relationship between these variables are independent of each other or not, is not clear, as larger companies might tend to have larger boards and thus remunerate their directors more generously because of their size. However, there is also the possibility that larger boards are less effective in moderating executive remuneration than small boards, based on the possibility that they are less effective in making decisions.

A key issue which therefore arises is, how effective are performance-related pay schemes? Evidence published just after before the Cadbury recommendations came into effect indicated

that, “it is unclear that these performance related schemes are necessarily in the shareholders’ interests” (Forbes and Watson, 1993: 331). The authors suggested that if the remuneration committee structure was to have the qualities of independence and accountability that Cadbury sought, then a more fundamental reform of the process of nominations and appointment of non-executive directors would be required. Because the UK system of corporate governance doesn’t provide shareholders with any meaningful incentive to exercise ‘voice,’ the remuneration committee is likely to be little more than a legitimating device whereby executives set their own pay without increasing accountability to shareholders (Keasey and Wright 1993).

Providing options to executives, a component of a performance-related scheme may not have the intended effect and according to Bertrand and Mullainathan (2001), such schemes contain a ‘gift component’ to the extent that even if the director is performs poorly they have a residual value – their Black-Scholes value²².

An approach to understanding the seemingly paradoxical world of executive remuneration is the ‘managerial power approach’ (Bebchuk and Fried, 2004) which suggests that the compensation of executives are excessive and not consistent with basic principles of optimal contracting theory as outlined previously in section 2.6.3. Compensation therefore, is a direct result of managerial power and this approach is in fact a re-articulation of the approach defined by managerial hegemony scholars in section 2.2.2. In this view, the executive class has the power to generate compensation arrangements which are favourable to them. A number of researchers have found that often pay arrangements seem to reflect managerial rent seeking as opposed to the provision of efficient incentives.

2.6.3 Marginal productivity

As outlined in the previous section the theoretical foundations (if that they be) of performance related pay rest on the premise that a worker’s remuneration is equal to his or her marginal productivity. Additionally it is assumed that a worker’s productivity is also dependent on their skills, qualifications or experience. It is traditionally assumed that merit is a justification for inequality; that effort plus intelligence equals reward (Sampson 1965). These assumptions are not necessarily accurate, as Piketty (2014: 305) noted.

²² Fischer Black and Myron Scholes published this formula in their 1973 paper entitled, "The Pricing of Options and Corporate Liabilities". In the paper they presented a partial differential equation, now called the ‘Black–Scholes equation’, which attempts to determine the price of option over time. The basic proposition of the model was focused on hedging options by buying and selling the underlying asset in just the right way and therefore eliminating risk. In the context used above, it is implied that the option has a residual value regardless of performance.

“This theory in some respect is limited and naïve. In practice, a worker’s productivity is not an immutable, objective quantity inscribed on his forehead, and the relative power of different social groups often plays a central role in determining what each worker is paid.”

This assumption of marginal productivity is therefore an interesting concept worthy of greater analysis, specifically in relation to executives. When a role is easily replicated such as a worker on a car production line, or a data entry clerk, it is relatively easy to estimate the marginal benefit from replication. But when an individual’s job functions are perceived (and this is an important distinction) to be unique, the less likely his or her function can be replicated and the notion of individual marginal productivity becomes more problematic. So therefore the key determinant in setting remuneration packages seems to be based on a number of things. Firstly the perception of ease of replication as Piketty (2014: 333) noted.

“The extent that certain job functions, especially in the upper management of large firms, become more difficult to replicate, the margin of error in estimating the productivity of any given job becomes larger.”

Piketty went on to claim the increases in wage inequality were a form of, “meritocratic extremism” which is the “need of modern societies, especially the US, to designate certain individuals as ‘winners’ and to reward them all more generously if they seem to have been selected on the basis of intrinsic merit” (Piketty, 2014: 334).

The most obvious, albeit crude, justification for the failure of corporate governance in this area is the lack of a positive relationship between executive pay and company performance. Data supplied by the HPC (2012) indicates that the overall level of executive remuneration has no relationship with share price. The HPC data used end of year share price, as a proxy for performance but one could also look at the TSR or EBITDA and expect similar trends assuming markets are efficient in valuing companies, which is the basis of all options or LTIP-based instruments in any case. The notion of basing performance measures on variables not directly linked to individual marginal productivity is potentially one of the most erroneous components of modern remuneration practices.

“If we look at the various performance indicators, such as sales growth, profits, and so on, we can break down the observed variance as a sum of other variances: variance causes due to those external to the firm plus other non-external

variances. Only the latter can be significantly affected by the decisions of the firm's managers" (Piketty, 2014: 335).

If these comments are contrasted with the supposition that there exists an agency problem inasmuch as executives do not automatically seek to maximise shareholder value ('the optimal contracting view' outlined previously in this section) and the observation that market forces are not sufficiently strong and fine-tuned to ensure optimal contracting outcomes (Bebchuk and Fried 2003), then it would seem that we arrive at a paradox. There is the acknowledgement of the existence of an agency problem but no instrument exists to adequately overcome that problem. Bertrand and Mullainathan (2001) established that executive pay increases most rapidly when sales and profit increases are based on external factors not under the control of management. They called this 'pay for luck.' "CEOs are rewarded for luck. Moreover, pay for luck is as large as pay for general performance" (Bertrand and Mullainathan, 2001: 929). A particularly interesting finding of theirs was a statistically significant relationship between companies with more large shareholders tending to pay less for luck, in fact they found the tendency to 'pay for luck' drops 23% with each additional large shareholder on the board. This finding may be attributable to large shareholders being more likely to exert a voice and apply pressure, whilst using their voting rights to control the behaviour of management.

The conclusion therefore to draw from the diverse approaches to pay and performance outlined in the literature is that although relationships between executive pay and performance exist under certain circumstances, it is far from clear that the assumptions on which Greenbury (1995) and more latterly Kay (2012) base their logic, is entirely convincing.

2.7 Bourdieusian perspectives on power, governance and remuneration

Pierre Bourdieu was one of the 20th century's leading sociologists. He was, "one of the most important sociologists of his generation and arguably the most influential since Durkheim and Weber" (Calhoun and Wacquant, 2002:1). He was a social theorist whose philosophy was grounded in empiricism. He was formerly Chair of sociology at the prestigious 'Collège de France' and was a prolific publisher, writing over 30 books and 340 articles (Swartz 1998). His contribution is to the relationship between class and culture in 'Distinction' (1984), capital in 'The forms of capital' (1986), the sociology of language in 'Language and symbolic power' (1991), power and fields in 'The state nobility' (1986) and the sociology of culture in 'The field of cultural production' (1993), amongst many other works.

Bourdieu's ideas have been increasingly applied to generate new empirical research, for instance a study by Sallaz & Zavisca (2007) found that the number of articles in four prominent US sociology journals citing Bourdieu had risen from 16, between 1980 and 1994, to 80 between 2000 and 2004. Additionally the universal nature of his ideas and theories means that the concepts he identified can be used as intellectual tools in a variety of disciplines ranging from political theory to the arts. As a result of this ubiquity, Bourdieu's work is being increasingly cited by scholars in a variety of domains, but in particular many contexts orientated towards organisational and business research, notably discussions on elites (Maclean *et al.*, 2006; Maclean & Harvey, 2008; Maclean *et al.*, 2010; Zald & Lounsbury, 2010; Kerr & Robinson, 2012), leadership (Robinson & Kerr, 2009; Kerr & Robinson, 2011) and organisational power (Phillips *et al.*, 2006; Zald & Lounsbury, 2010; Reed, 2012).

The rationale in drawing extensively on Bourdieu's sociology is however based on more than just its current populism, or indeed that it complements some of the post-Marxist literatures adopted throughout this thesis. It has been selected because Bourdieu, across all of his many works, examines issues which are appropriate in the context of this research. In other words, Bourdieu examines issues of power, authority, symbolism and language all of which, to some extent, contribute to the understanding of corporate governance. For instance, issues associated with how certain notions and ideas are reproduced, are central concepts explored in subsequent chapters and Bourdieu's theory is an entirely appropriate intellectual toolbox to examine these issues with, as Swartz (1998: 6) explained,

“Whether he is studying Algerian peasants, university professors and students, writers or artists or the church, a central underlying preoccupation emerges: the question of how stratified social systems of hierarchy and domination persist and reproduce intergenerationally without powerful resistance and without the conscious recognition of their members”.

2.7.1 Field theory and habitus

Bourdieu highlighted the existence of institutional actors who exist within stratified fields and that these fields form parts of a larger network of fields, which exist within society more generally. According to Bourdieu (1986), these fields are systems of social relations, which are inherently contested, and in which individuals struggle to acquire both “tangible and intangible capital” (Bourdieu 1986: 265). Fields are sites of domination when the social order

is imposed through the explicit and implicit harnessing of power. The theoretical premise outlined by other Bourdieusian scholars in an organisation context (Maclean 2005, Maclean *et al.* 2010), is that as directors gain promotions or progress in some other way, for instance via a merger or acquisition, they ascend through a number of fields. Each of these fields can be identified as a delineated social space with rules, actor dispositions and desirable practices (Maclean *et al.*, 2015b). The uppermost stratum of society, at the head of all other fields, is the field of power (Bourdieu, 1993; Bourdieu & Wacquant, 1998), which sits at the pinnacle of the cultural and corporate worlds. Bourdieu defined it thus,

“The field of power is a field of forces structurally determined by the state of the relations of power among forms of power, or different forms of capital. It is also, and inseparably, a field of power struggles among the holders of different forms of power, a gaming space in which those agents and institutions possessing enough specific capital (economic or cultural capital in particular) to be able to occupy the dominant positions within their respective fields, confront each other using strategies aimed at preserving or transforming these relations of power”
(Bourdieu, 1986: 264).

Therefore the concept of the ‘field of power’ is seen as an important one in the context of corporate elites. “The field of power is a social space in which members of different elite groups freely mingle, recognised by one another as social and political equals” (Maclean *et al.*, 2006: 33). Ascension to the field of power is represented by the legitimacy and recognition gained as a result of the accumulation of capital in its various forms. One of the key ideas about the field of power is that it sits at the top of a multi-disciplinary nest of other fields. These are normally defined as discipline specific. For instance there may be fields covering health, law, politics or education. The existence of a ‘power elite’ (Mills, 1953; Useem, 1984) constituted of ‘dominant agents’ (Maclean *et al.*, 2010; Maclean *et al.*, 2015b) suggests the existence of a group of agents who are operating above the individual field level and within a field which transcends these fields. This higher stratum of agents transcends institutional and organisational boundaries and often connect with elites in disparate fields (O’Mahony and Bechky, 2006; O’Mahony and Bechky, 2008).

Bourdieu’s concept of *habitus* is particularly useful in examining why actors make the decisions they do, how they are able to make these decisions and to analyse elite cohesion and issues of institutional solidarity more generally. Essentially, *habitus* can be viewed as an

intellectual tool to examine conventional wisdom in respect of corporate governance behaviours and published rules, which, in turn, form the foundation of not only the business world but society more generally. Habitus was defined by Bourdieu as the means by which, “life chances are internalised and converted into a disposition” (Bourdieu, 1984: 170) and it represents a, “primary mechanism for social reproduction” (Harvey and Maclean, 2008: 110). Habitus gives individuals “‘a feel for the game’, a practical sense (*le sens pratique*) of what constitute appropriate behaviours in the circumstance and what does not” (Maclean *et al.*, 2006: 35). Therefore habitus is critical in reproducing existing social structures and distinctions and in reinforcing the prevailing cultural system.

The concept of habitus is important as it suggests that education and taste mediate social standing, in such a way it is, “both the generative principle of objectively classifiable judgements... and the system of classification [itself]” (Bourdieu, 1984:170). For the purposes of this study, the theory holds that as actors navigate their way through various fields, their ability to gravitate toward the field of power is mediated by unconscious factors, namely habitus.

2.7.2 Capital

Bourdieu’s characterisation of capital is also interesting. Whereas Marx focused solely on economic capital as the governing form of capital, Bourdieu identified that cultural, symbolic and social capital can be exchanged for economic capital; he proposed that they are *transmutable*. This notion is particularly relevant both when discussing capital generated by an executive or non-executive over the course of his or her career or when analysing the issue of power and class. Bourdieu theorised that the four sources of capital illustrated in Figure 5, are the ultimate source of power in society.

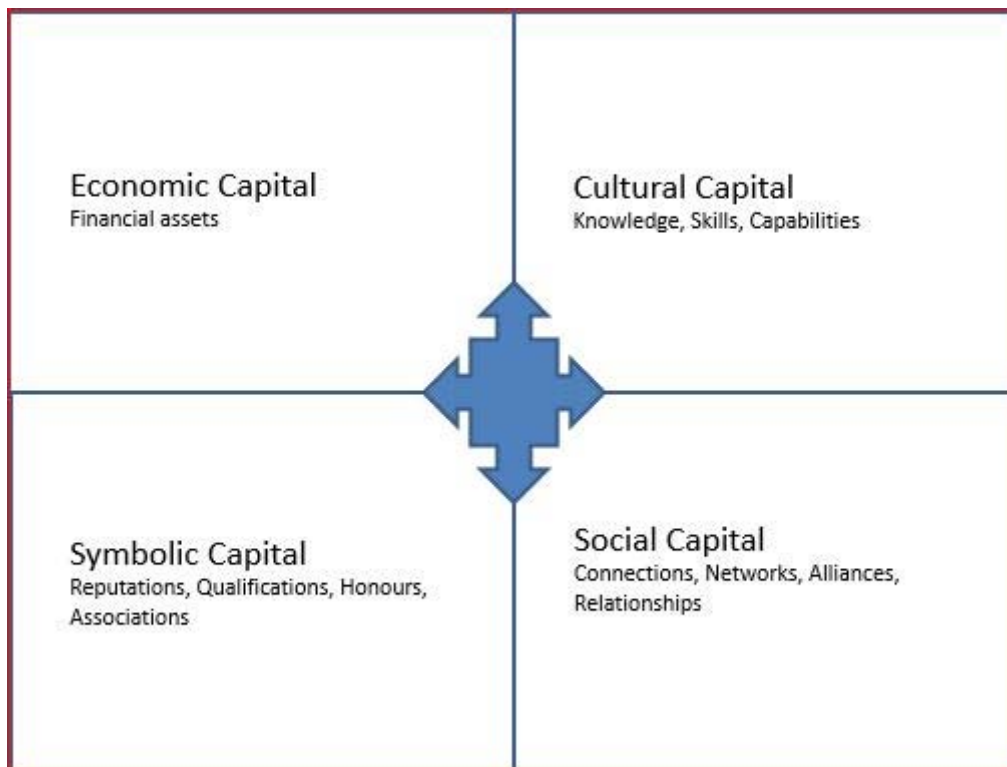


Figure 5: Bourdieu's four forms of capital. Source: adapted from Maclean *et al.* (2006)

What is useful about capital theory is that it can be used to attempt to quantify various types of capital (social, cultural, symbolic or economic) and therefore it helps observers to understand how and when they are traded and thus gain an understanding of how the social world is constructed. A key point which Bourdieu (1986: 265) made, was that different forms of capital are specific forms of power and that these are active in fields that are subject to forces and struggle. What results is a struggle over power to dictate the, “dominant principle of domination, which leads to constant state of equilibrium in the partition of power” (Bourdieu 1985: 265). Thus the relationship between capital and power can be seen to be mutually constitutive. Although economic capital is thought to be the pre-eminent source of power within the corporate field (this a very Marxist perspective), it is also highly field dependent, with cultural capital being more valued in the arts, literature and education (Mackean *et al.*, 2006).

Directors who operate in the corporate field often possess varying types of capital, which are acquired and applied over the course of a career. An executive director may have acquired cultural capital in the form of an elite education, which is cultivated in ascending to the board and thus transmuted to economic capital. This capital is often then transferred to symbolic capital as various titles are conferred upon the director. Finally the status invoked in holding a title increases opportunities through social capital to obtain a non-executive position on a

board of an elite organisation. These forms of capital aren't mutually exclusive, inasmuch as acquiring symbolic capital does not mean the holder necessarily can transfer this capital to social capital or indeed that he (usually he) possesses any other form of capital, Bourdieu (1986: 241) makes careful note of the "potential capacity to produce profits and to reproduce itself in identical or expanded form". An example is that an elite education may not necessarily equate to a place among the corporate elite, in much the same way that a place in the corporate elite does not guarantee the bestowment of an honour or title. However, the duality between capital and power is an important determinant of transmutability between capital types.

2.7.3 Power

The study of power is central to contemporary organisational theory and as such there is a canon of work which has gained considerable momentum, which argues that power is both processual and contextual, see for instance (Clegg, 1989a; Clegg, 1989b, Pfeffer, 1992, Pfeffer *et al.* 1984, Clegg & Hardy, 1996; Lukes, 2005; Phillips *et al.*, 2006). Throughout Bourdieu's works, there is both implicit and explicit reference to power and therefore has led to the development of the concept by a variety organisational theorists who have been inspired by his work. See for example Mutch, (2003), Maclean *et al.*, (2006), Gordon *et al.*, (2010), Kerr & Robinson, (2011), Kerr & Robinson, (2012), Maclean *et al.*, (2014a), Maclean *et al.*, (2015b). For Bourdieu, power cannot simply be explained in terms of the assumed relationship between cause and effect, but instead as a ubiquitous and impervious feature of life, which structures social context and mediates other relations (Clegg 1989a). As such it can be defined as a relational concept (Phillips *et al.*, 2006), which defies accurate empirical measurement.

When researching corporate power, there have been a wide range of empirical proxies and composites devised. This means that, as noted above, accurately measuring power is a problematic endeavour. Nevertheless, scholarly attempts have been made. Veprauskaitė and Adams (2013) for instance, used five variables to measure the degree of CEO autonomy while other studies employed variables including CEO/chair duality, tenure (Combs *et al.*, 2007) and ownership (Florackis & Ozkan, 2009) as proxies. Other studies have focused on more relational aspects of power such as 'will' and 'skill' (Pettigrew & McNulty, 1995). In this sense the authors suggested that, "possessing a power source is merely a route to potential power" (p202). This emphasises the complexity of measuring power and its multidimensional nature as Adams *et al.* (2005: 1408) pointed out, "power is a concept that has different dimensions and not all of them [are] easily observable". Bourdieu's notion of symbolic power

illustrates at once the complex nature of power relations and the problematic nature of accurate quantification. It implies the use of what Bourdieu calls “symbolic instruments” (Bourdieu & Thompson, 1991: 165) such as means of communication, culture or behaviour.

“Symbolic power is that invisible power which can be exercised only with the complicity of those that do not want to know that they are subject to it or even they themselves exercise it” (Bourdieu & Thompson, 1991: 164).

This example of power lies not in tangible things, documents or process but in the structure of relationships between agents (Bourdieu & Thomson 1991). It is not something that is one dimensional or easily quantifiable. It is, rather, a vehicle for reproducing social power and domination. Bourdieu suggested that power relations are embedded in what he calls the *doxa*, that is, “an adherence to relations of order which, because they structure inseparably both the real world and the thought world, are accepted as self-evident” (Bourdieu, 1984: 471). In this sense power is ubiquitous and diffused in all social relations.

In solidarity with Bourdieu, Lukes (2005) suggested that there is a deeper and more complex explanation of power relations at work, and therefore power should be considered in a much broader context. His ‘third dimension’ looks beyond the observable features of power relations (conflict, awards, titles and behaviour), and rather it focuses on issues such as control over the political agenda, latent conflict and the more covert ways in which power is harnessed and dispersed. The relevance of Lukes’ work in the current context is that power is not only sustained by individual acts, but additionally by “the socially structured and culturally patterned behaviour of groups, and practices of institutions, which may indeed be manifested by individual actions” (Lukes, 2005: 26). This may be in the form of overtly and covertly observable conflicts and these not only focus on the actual decisions that are made, but also control over the agenda from which these decisions are drawn. Lukes’ position may be considered to be post-Marxist (or even post-Bourdiesian) in so much as it draws on the idea that the maintenance of social order is based on the restrictions of power from those without capital[s], therefore those with capital are able to form the political agenda thus generate a form of ‘domination’. Bourdieu summed up the position which Lukes bases his theory,

“The dominant apply categories constructed from the point of view of the dominant to the relations of the dominant, thus making them appear as natural” (Bourdieu, 2001: 35).

This shapes Bourdieu's notion of habitus which was previously discussed, and from this perspective, the embodied dispositions and senses that add context and shape to a world, which is "profoundly obscure to itself" (Bourdieu, 2001: 37). Bourdieu's ethnographic studies of social fields are illustrative of how power as domination has 'naturalising' effects on the population. The key conclusion to draw is that power is not necessarily consciously mobilised to achieve pre-defined aims or supports propaganda leading to deliberate outcomes, such as pure Marxist interpretation would assume.

Given that power can be defined in both a relational and structural sense, a number of prominent scholars have developed the idea that power is perhaps most appropriately characterised as a "capacity premised on resource control" (Clegg 1989b: 99) or "command over resources" (Maclean et al 2010: 328). What constitutes a resource may vary widely and include both relations and structures and as such this definition may be universally deployed.

How power is harnessed is arguably inseparable from what constitutes it. Bourdieu explained in fastidious detail, how this theory of power and domination is exercised in, *'Distinction (1984),'* which looks at artefacts from everyday life such as sports, music, decoration, language, fashion and food. It explains how distinctions are maintained and reinforced as people consent to the classification of themselves and others.

2.7.4 Social structure, education and governance

For Bourdieu, education was an important form of cultural capital, "his point is to suggest that culture (in the broadest sense of the term) can become a power resource". (Swartz 1997: 75). Educational institutions are an explicit method of building cultural capital with the overt goal of later converting this capital into other forms of capital (Savage 2015). Universities are ranked on league tables, constructed by relatively arbitrary, yet empirically defensible constructs. These tables generate scales on a whole series of constructs; student satisfaction, employment opportunities, research quality, etc. Graduation from an elite institution not only brings with it the obvious advantage of having received what is notionally the best education, but also the accumulated benefits of studying at the institution. These accumulated benefits are numerous and include the creation of a strong and large network, the formation of certain dispositions and tastes, and the expectations and confidence that an elite academic education entails. Therefore the academic system is arguably elitist, with the explicit and implicit objective of preserving the status quo and reinforcing the corporate and governmental institutions which fund them. The role of Britain's schools and universities in designating, 'an elite,' reinforce the systems and rituals these individuals bring into the world of business.

“The process of transformation accomplished at elite schools through the magical operation of separation and aggregation analogous to those produced by rites of passage... tends to produce a consecrated elite, that is, an elite that is not only distant and separate, but also recognised by others and is worthy of being so”
(Bourdieu & Wacquant, 1998: 102).

The assertion that schools and higher education institutions play a key role in the process of cultural reproduction is not a recent observation, of course. There is a rich tradition which has asserted the cultural composition which comprises society is deep-rooted, enduring and subject to trajectories which are more or less prescribed. Notably, Mills (1953), Dahl (1961), Useem (1984) and North (2006) have all highlighted that institutional and social continuity is important in determining how economies and societies evolve and delineate the symbiotic relationship between the two.

The governance of corporate institutions does not exist in vacuum. There is a continual reference throughout the UK code of corporate governance not only to conform to the requirements of the code, prescribed by listing rules, but to conform to the *spirit* of the code (this idea is further developed in chapter 4). Where does the value base from which the principles and spirit originate? If the value base is one which frames the debate philosophically around the individual and the value maximisation agenda then that is quite another matter than if the value base is centred on collective responsibility and egalitarian principles. From a Bourdieusian perspective, to what extent can this phenomenon be viewed as a result of hegemony and therefore implicitly the habitus of the ruling classes? Bourdieu employed the concept of *nobless oblige* to illustrate that the ruling class who attained qualifications from the *grande ecoles* confer, “a competence extending far beyond what they are supposed to guarantee” (Bourdieu, 1984:25) and an “essence” which they must live up to which is a form of, “social magic” (Bourdieu and Wacquant, 1998: 112).

The concept of *nobless oblige* is particularly illustrative of the role played out by the British corporate elite, “assigning someone to a group of superior essence (nobleman as opposed to commoners, men as opposed to women, educated as opposed to uneducated) causes that person to undergo a subjective transformation that contributes to bringing about a real transformation likely to bring him closer to the assigned definition” (Bourdieu and Wacquant, 1998: 112). This, as Kerr & Robinson (2011: 155) suggested, yields a, “‘feel’ for the

uncodified ‘rules of the game’ by which a field is reproduced and which in turn reproduces the social agents in that field”. This propagation is, in turn, developed by the economic, educational and social framework it operates within (see figure 6).

The idea that in some way the corporate elite can escape petty rules and regulation, as a result of their heredity or affiliations is an interesting one. Some elements of the political and corporate classes will defend light touch, *laissez-faire* liberal capitalism. It is probably no coincidence that the dominant political associations of the 20th century, the Liberal and Conservative parties for instance, have their ideology deeply rooted in such a philosophy.

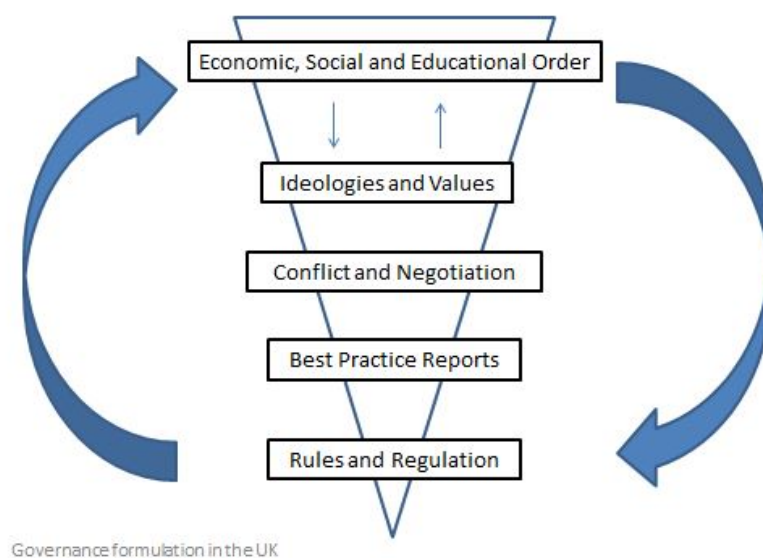


Figure 6: The process of governance formulation in the UK

Figure 6 shows how governance behaviours and policies are propagated. This conceptual framework suggests that all rules and regulations are themselves a product of the prevalent ideologies which are symbiotically propagated through the economic, social and educational systems. The key issue is the inseparability of business governance models from the dominant ideology of the day and additionally these ideologies are in themselves products of the historical structures inherited from previous generations. This idea will be elaborated on in the discussion of institutionalism in chapter 7. Phillips *et al.* (2006) argued that elite power is critically linked to the capacity of the elite group(s) to, “maintain equilibrium between political and cultural cohesion as well as manage diverse practices and decision making processes” (Phillips *et al.*, 2006: 342). Therefore the ability to maintain control over the process of governance reform through educational institutions is conceivably a way in which

the 'elite' maintain their dominance. The citizen has no method of curbing such power in comparison to the powerful interests which organised capital enjoy.

Since the publication of the Cadbury report in 1992, there have been incremental changes in governance arrangements spurred by a number of 'best practice' reports which will be described in chapter 4 (Greenbury 1995; Hampel 1998; Turnbull 1999; Higgs 2003; Walker 2009; Kay 2012). However none of these has fundamentally questioned the foundations of the code of corporate governance. The 'comply or explain' mechanism is at the heart of the arrangements. It can be seen how the principles espoused in the code have been generated from the values and interests of the elite classes which have evolved from and been propagated by, the public schools, elite universities and by the socio-political foundations of trans-corporate networks.

The evolution of the code over time, is arguably based on the politics and agenda of those individuals that conduct the reviews (Higgs, Cadbury, Walker, Greenbury, Kay, et al.) and therefore, by association, those who appointed the individuals that conduct the reviews. Drawing on Bourdieu's work of French society (Bourdieu 1984), the dominant ideologies are generated as a result of the habitus of the bourgeoisie. These assertion will be developed and substantiated in chapter 6.

The 'Conservative supremacy' which Hutton (1996) referenced as existing since 1979, is maybe more aptly termed a 'conservative supremacy', in that it possibly never represented an overtly political movement, but like any other movement, one where the social agents habitus meant reproduction and position taking and the space of position taking in which they are expressed, "*prise de position*" (Bourdieu 1993: 30) unconsciously. "We, as social agents, are not necessarily consciously aware of having acquired practical knowledge, although it can be historicized and its origins disinterred" (Kerr and Robinson, 2012: 250). This position echoes the work of Lukes (2005) who suggested that expectations are moulded through the implicit channels of power which make any challenge to the dominant system of power unthinkable. This is an evolution of Kant's idea of *conditions of possibility* (Kant & Guyer, 1998). It is the basis of Lukes' so called 'third dimension' which was explained previously in this section. In this respect, education is key tenet in this system, qualifications and status can be seen as instruments which protect the dominant orthodoxy (whatever that may be). In other words, as illustrated in Figure 6, educational institutions play a central role in the reproduction of

systems of governance, including corporate governance, in so much as they reflect the dominant economic and social order, and its ideology and values.

2.8 Elites, class and dominant corporate agents in the UK

Managerial elites are a much neglected topic of academic study (Pettigrew 1992). The idea of the existence of dominant and competing elites is the foundation of much of political and economic sociological research in the 20th century (Scott, 2008) and as such, 'elite theory' has become a well-established school of thought (Phillips *et al.*, 2006). Essentially it postulates that society is divided into groups of people that rule and those that are ruled. It suggests that those that rule are separated from the "masses of the governed by qualities that give them a certain material, intellectual or moral superiority" (Mosca, 1939: 53). There are a number of classical theorists who are commonly attributed with forming the foundations of this stream of work. For instance, Mosca (1939) wrote about the political domination of an organised few over the unorganised many, while Mills' influential 1956 work 'The power elite', explained how the military, corporate and political elites dominate ordinary citizens by harvesting and utilising power in the context of society in the United States.

As noted previously, the study of elites in a contemporary corporate context has descended from the work of the classical theorists such as Mosca (1939) already noted, through to more recent twentieth century works, such as Mills (1953), Dahl (1961) and Miliband (1969). One of the key propositions of elite theorists is that the recruitment of elites is reflective of the social structure, but more than that, it is a cultural matter, "deeply embedded in the political rationalities and identities of organisational members" (Phillips *et al.*, 2006: 346). This position may be identified as broadly Bourdeusian in the sense that the construction of elite groupings is very much based on the plurality of elite groupings drawn from a diversity of fields. When the term 'ruling elite' is used, it does not necessarily imply the existence of a homogenous organised cohort in a strict Marxist sense, there may exist a plurality of elites, which itself is a reflection of the constitution of society in which the social reproduction of the elite groupings are formed.

There is a debate relating to the degree of fragmentation of the elite body (Phillips *et al.*, 2006) and whether elites are a cohesive unit or a network of loosely bonded individuals who share common interests. There has been a tendency to overstate the power and cohesion of 'elites,' which has been unintentionally reinforced by its indiscriminate use (Scott, 2008). Therefore the very notion of what it means to be *elite* is contested (Zald and Lounsbury, 2010).

There is cotemporary work, which claims to empirically observe the existence of elite groupings in UK society. Some of this work focuses on individual groups of elites, be this political, economic or corporate agents. A comprehensive and influential corpus of work has examined the effect of interlocking directorships (Mizruchi & Stearns, 1988; Mizruchi, 1996; Brass, Gakaskiewicz, Greve & Tsai, 2004; Burris, 2005) and much has been made in the corporate governance texts of non-executives being “independent of the company... and free from any business or other relationship which could materially interfere with the independence of their of their independent judgement” (Cadbury, 1992: 22). The Higgs report (2003) explicitly mentioned ‘cross directorships’ or ‘significant links’ (p. 37) as potentially compromising the agency function of boards. However, these structural relationships between elites only allow partial insight into the composition and impact of the elite body and indeed, the study of ‘interlocking directorates’ is only one aspect of the literature on elites in an organisational context (Zald & Lounsbury 2010).

Of particular relevance to this thesis, is the work examining the extent to which power is concentrated in the hands of a small number of ‘dominant corporate agents’ who hold a disproportionate share of corporate power. Maclean *et al.* (2006) found that just 200 directors in Britain held 54% of corporate power, while the top 100 hold 37% of the top 50 companies. This data supports the assertion of Phillips *et al.* (2006) who articulated Bourdieu’s thesis that power is confined to the ruling few, a unified homogenous business class, small and exclusive, and in the UK at least, descended in part from the UK’s elite institutions. The increasing size and complexity of structure, of the multinational organisation, which is a significant feature of our corporate landscape has arguably propagated this phenomenon. The growth of these transnational and trans-corporate networks has meant the growth of ‘key control relations’ as a result of the interconnection of these companies (Scott, 1991). Scott characterises these relations as powerful interconnections at important junctures between organisations. Are these relationships close, or possibly more distant?

It is assumed that corporate elites are not closely related to one another, and that the Higgs (2003) definition of independence is a satisfactory justification of individual status. However, what is the relative value of ties between elites, and can networks be empirically defined? Granovetter (1973) highlighted the ‘strength of weak ties’ which suggest that lower density networks may actually be as useful as stronger network ties (interlocking directorships, for example). In this way, less visible, lower density networks may be more useful in obtaining

an executive or, more likely, a non-executive role. This is important given the observation that research has shown few directors in the UK are appointed following a formal appointment process (Maclean *et al.*, 2006). For social scientists, the focus of analysis should not only be on identifying relationships within elite groupings, such as the strength of their ties or their educational backgrounds, but more with ascertaining if, collectively, they form part of a dominant or ruling class and whether this grouping has the decisive degree of power in terms of decision making.

There has been a renewed interest in the analysis of class inequality generally (Bourdieu, 1984; Bourdieu and Wacquant, 1998; Jones, 2012, 2015; Savage *et al.* 2013; Piketty, 2013; Bourguignon 2015; Stiglitz 2004, 2015, Atkinson 2015 and Savage 2015). Section 2.3 described some of this analysis. A classical frame of reference when examining class is undoubtedly that of Karl Marx and indeed, many of the studies noted above are broadly post-Marxists to the extent it can be tentatively said that there has been somewhat of a modern resurgence of interest in these ideas. Put crudely, Marx's distinction is that class is a product of the ownership of the means of production. This ownership split determines the power one has over one's life and the degree to which individuals or groups can use the state as an instrument of domination. Elite groupings then divide and struggle against each other as individuals seek to exert their control over organisations, institutions and government in order to extract value from the proletariat. This plurality of elites may be seen from a Marxian perspective to be homogenous, but may be composed of diverse sub groups. Bourdieu's concept of field is extremely helpful in framing this analysis.

As noted previously, the extent to which there is a dominant class who wield decisive economic power (Miliband 1969) is an issue equally as relevant today, as it is contentious. Recent empirical research into the subject using a broadly Bourdieusian framework was conducted by Savage, Devine, Cunningham, Taylor, Li, Hjellbrekke, Le Roux, Friedman & Miles (2013) entitled, *Findings from the BBCs great British class survey*. They measured social, cultural and economic capital and identified the presence of an elite class in the UK who possessed a high number of social contacts and which had restricted upward mobility into its ranks,

“Our findings thus clearly demonstrate the power of a relatively small, socially and spatially exclusive group at the apex of British society, whose economic

wealth sets them apart from the great majority of the population.” (Savage *et al.*, 2013: 234).

The authors go on to suggest that their findings allow the reintegration of class analysis with the study of elites. Therefore the Marxist notion of a dominant or ruling class which the Savage study (and his 2015 work which spawned from it) supports, has some relevance not only for the study of elites but for studies of organisations and governance more generally. This form of elite analysis is important because of the way organisations structure society. In such a way elites have, “a capacity to disorganise those groups in society which, while constituting a numerical majority, see their interests partially (if ever) represented only within the framework of the fulfilment of dominant interests” (Castells, 1996: 415). This capacity is more and more played out through the most important of all *structuring structures* (Bourdieu 1972); organisations, and the rules they observe.

Swartz (1998) identifies class distinctions, as illustrated by qualifications or heredity, are synonymous with certain cultural practices. These practices in the field they are played out, are reproduced and homogenised, in particular the emphasis on certain behaviours and rules of the game in elite circles are reflective of this, “Class differences find expression in status distinctions that rank individuals and groups on scales of social honorability [sic.] rather than in terms of economic interest alone” (Swartz, 1998: 151). Jones (2012) suggested that class is a deeply complex notion in British society, and that one’s class, isn’t necessarily tied to one’s economic circumstance. Moreover, Jones conveyed the notion that class distinctions in Britain are tied to an individual’s control over their own labour. “Working class means: the class of people who work for others in order to get by in life” (Jones, 2012: 144). Obviously the definition of what it means to be working class can be much more complex than Jones suggests, but it serves in part to illustrate that just because a person may have a certain level of economic capital, it doesn’t necessarily follow that this is transmutable into other forms of capital, but it does suggest the increased possibility of this occurrence. Empirical work such as that by Savage *et al.* (2013) and, more recently, by the OECD (2013), illustrate a possible widening of inequality in the UK, with the creation of an ‘economic elite’. This economic elite is not necessarily a corporate elite, although these groups tend to be highly correlated based on the practices of social reproduction from which the ‘power elite’ is constituted (Mills, 1953). Indeed, there is an opportunity to reconnect class analysis with organisational analysis, from which it become disengaged (Clegg, 1989a; Maclean *et al.*, 2010). In doing so,

the collective understanding of how class sustains and reinvents the various mechanism of powers and domination.

Contemporary research on corporate elites has been sparse and “arguably downplayed in the social sciences literature” (Maclean et al 2015b: 209) with a few notable exceptions (for instance see: Maclean *et al.*, 2006; Maclean *et al.*, 2010; Zald and Lounsbury, 2010; Maclean *et al.*, 2014a; Stokes *et al.*, 2014; Maclean *et al.*, 2015b). Little is known about the composition of the elite body and the activities of ‘dominant corporate agents’ (Maclean *et al.*, 2010). One of the most interesting seams of research has examined the extent to which elite groups struggle to control resource distributions and how they mobilise resources to manage the forms of capital. Scott (2008: 38) highlighted that, “both the holding and the actual exercise of power,” are important to understand. Therefore, importantly, occupying the most powerful position structurally does not necessarily equate to power. The actor must have the ability to exercise the power which they hold. The extent to which the Maclean *et al.* (2010: 328) definition of power as, “command over resources”²³ is equal to the actual power exerted is less clear, therefore understanding the casual nature of power dynamics is just as significant as its [attempted] measurement.

2.9 Institutional reform, corporate governance and the field of power

The important contribution of institutional studies to the governance of businesses, is in the way in which institutions govern the actions of corporate actors as a result of the social context they operate in. Therefore, in turn, how corporate boards are structured, composed and operate, in turn mediates their conduct within the field. With this in mind this section seeks to bring together Bourdieusian perspectives identified in previous sections, with the wider issues of education, class and governance previously discussed.

The conceptual foundations of institutional theory were initially developed by authors such as DiMaggio and Powell (1983), who discussed why organisational fields tend to become so homogenised. Along with Meyer and Rowan (1977), they developed new thinking about organisations, which subsequently evolved into one of the dominant modes of understanding organisations and groups of organisations. The authors highlight that early adopters of organisational innovations do so to improve some aspect of organisational function, such as performance, accountability or oversight, but these practices can have unintended

²³ The author’s calculation is based upon a single variable which is composite of capital employed, turnover, profitability and number of employees.

consequences beyond the original “technical value of the task at hand” (Selznick, 1957: 17). According to DiMaggio and Powell (1983), the concept which best captures the process of homogenisation is isomorphism, which in an organisational sense, can be described as the process which makes one company resemble others when facing similar environmental conditions. DiMaggio and Powell (1983) identified three mechanisms of institutional isomorphic change: coercive, mimetic and normative. These mechanisms all in some way mean organisations tend to model themselves on other organisations in their field. Their field may be defined simply as the industry they operate in or it may relate to some other field such as their regulatory field. Additionally, they may share similar directors or share similar cultures or strategies,

“This, similarity, can make it easier for organisations to transact with other organisations, to attract career minded staff, to be acknowledged as legitimate and reputable and to fit into administrative categories that define eligibility for public and private grants and contracts. None of this however ensures that conformist organisations do what they do more efficiently” (DiMaggio & Powell, 1983: 154).

The impact of the individual on the collective action of the organisation is what makes institutional theory relevant to the trajectory of governance rules and behaviours over the last 20 years. The literature contains several interesting works such as Di Maggio & Powell (1983), DiMaggio (1988) and Oliver (1991) which all explore the ways, both theoretically and empirically, in which actors are able to create, shape and maintain institutions and their practices.

Oliver (1991) argued that organisations are driven not by processes of interest mobilisation, but by the preconscious acceptance of institutionalised values from both within the business and the wider organisation more generally. In this way, the need to understand the motives for individual and organisational behaviour are evident. “Institutional theory focuses on the reproduction, or imitation or organisational structures, activities and routines in response to state pressures, the expectations of professions or collective norms of the institutional environment” (Oliver, 1991: 149).

There is however a broader and potentially more dominant interpretation of institutional theory and its constructs. The significance of institutional theory is much more powerful if it can be assumed that the corporation, as the dominant institution, is larger and more powerful in many cases than the state, church or other bodies. In turn, we can adopt the logic of

institutional ecology (Suddaby and Greenwood, 2005) to suggest that businesses are reproducing and legitimising behaviours and actions based on the dominant consensus supported by the Austrian and Chicago schools. Therefore institutional theory is useful in determining why certain structures or strategies have metamorphosed into what we see today, because it helps to understand the relationship between society, culture, history, environmental and political influences on behaviours.

A particularly useful concept in trying to explain why businesses tend to follow similar organisational structures, and particularly governance behaviours, is suggested by DiMaggio and Powell (1983) who used the idea of mimetic isomorphism which refers to the conscious or unconscious mimicry of institutional models. Such an example is the potential effects of the big four accounting firms and the extent to which their consultancy advice flows through to what is perceived as 'best practice'. An accountant's representation of a business, therefore, can be seen as a socially constructed framework which is reflective not only of the prevailing zeitgeist, but of its history and traditions. Therefore, as Roberts noted in a recent lecture posted on YouTube entitled "*Why Accounting is not accountability*" (Roberts 2010b). Indeed Roberts' work is only a small part of the wider critical accounting literature identified previous, it arguably shares many themes and commonalities with institutional theory.

Companies tend to mimic that they perceive as particularly successful, but again this may be either conscious or unconscious as part of the influence of '*rationalised myths*' (Meyer and Rowan, 1977). Part of the explanation for this, particularly in the context of listed companies, is the desire to be *seen to be accountable*, to be following what is perceived as best practice or low risk. To be seen to be looking after the community, the environment, their employees, to act ethically, are all supportive of enhance legitimacy and hence compliance with accepted norms. By doing so, the company is either intentionally or unintentionally aligning itself with the norms of the markets and the expectations of investors in that market, which has potentially a large impact in mitigating the perceived risk within the investment chain.

Institutional compliance is also an important trope. Companies comply, to a greater or lesser extent because they don't want the damage their public image or incur financial penalties for non-compliance. They also comply to support their share price (and hence executive's own LTIPs), if we assume, as market theorists do, that failure to comply will result in market action and therefore an equity sell off. These behaviours unite a diverse alliance of corporate stakeholders, from employees to individual shareholders to non-executives. All have a stake

in ensuring that business complies not only with regulation, but also with the perceived spirit of the rules, which in turn attempts to comply with the prevailing zeitgeist.

Meyer and Rowan (1977) explained that as the institutional landscape becomes more complex in terms of its relational networks, increasing numbers of ‘*rationalised myths*’ arise. For instance, the idea that publishing annual reports makes executives accountable to shareholders is a highly institutionalised myth associated with the centrality of accountants, audit and transparency within modern corporations. Creating a legitimising framework which permits the structured diffusion of accounting data, adds to the dominant ideology of long-term returns as the *raison d’etre* of the modern organisation.

“In modern societies, the elements of rationalized formal structure are deeply ingrained in, and reflect, widespread understandings of social reality. Many of the positions, policies, programs, and procedures of modern organizations are enforced by public opinion, by the views of important constituents, by knowledge legitimated through the educational system, by social prestige, by the laws, and by the definitions of negligence and prudence used by the courts. Such elements of formal structure are manifestations of powerful institutional rules which function as highly rationalized myths that are binding on particular organizations” (Meyer and Rowan, 1977: 343).

The concept of transparency is perhaps an example of a highly institutionalised myth, reflecting, to some extent, the rules and ideologies of the wider population (Meyer and Rowan, 1977). Organisations putatively gain legitimacy through the mechanism of transparency, in the sense that they are seen to be behaving in a rational manner (Meyer and Scott, 1983) and thus avoid integration of their activities. Along with ‘accountability’, transparency has probably become one of the shibboleths of this era. The Blair government enshrined the idea in the Freedom of Information Act 2000²⁴ which mandated the right of individuals to see what information public and private bodies held. The act was first circulated in a 1997 white paper entitled, ‘Your Right to Know’²⁵, the entire basis of which assumes a relationship between openness and accountability which will therefore lead to yield better governance. This assumed relationship has become so pervasive that it has become a dominant theme in all aspects of politics, business and society since that time.

²⁴ <http://www.cfoi.org.uk/pdf/foia2000.pdf>

²⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/272048/3818.pdf

Several institutional and resource dependency theorists have suggested the importance of 'avoidance' as a response to institutional pressures (Meyer & Rowan 1977; Meyer and Rowan 1983). Essentially the theory suggests that workers avoid changes in structure or practice to ensure 'face' is maintained. "Assuming that individual participants maintain face, sustains confidence in the organization, and ultimately reinforces confidence in the myths that rationalize the organization's existence" (Meyer and Rowan, 1977: 358). By assuming all individuals are performing their role in an appropriate manner and in good faith allows organisational confidence to be maintained and thus protect formal structures and norms.

An important contribution that institutional theory makes is in analysing the role of language in shaping policy and enacting change. Some literature suggests that relationships between variables as evidence of causality. For example, Gregg *et al.* (2012) conducted a study, which was published in the 'International review of finance' asking, "did bankers bonuses cause the crisis?" The study examined pay data in financial services to explain the likelihood of incentive structures being at fault for the crisis. The key limitation of studies like these is that they cannot fully explain human agency. For instance Sudderby (2010) among others, suggested that the analysis of language was an important tool in understanding cause and effect or, "the deliberate use of persuasive language to influence the creation and maintenance of cognitive categories" (Suddaby, 2010:17). The idea that behaviours are constituted through the consumption and production of texts, is championed by Phillips *et al.* (2004). This important contribution to the relationship between discourse theory and institutional theory suggests, "that it is not action *per se* that provides the basis for institutionalisation but, rather, the texts that describe and communicate these actions" (Phillips *et al.*, 2004: 635). Therefore in such a sense it is the discourse of policy creation: the best practice reports, the committees, the investigations that legitimise behaviour, and institutions therefore are products of the discursive activity that influences their behaviours. Therefore one way of examining the evolution of governance practices, norms and behaviours is by looking at the discourse that has informed policy over a period. Essentially the discourse which surrounds a subject or topic makes certain ways of thinking or acting possible. Weber's 'iron cage'²⁶ is an appropriate metaphor to draw on in this instance as it legitimises and facilitates a certain set of actions, beliefs and assumptions.

²⁶ The Iron Cage is a term coined by Max Weber to highlight the increase bureaucratisation which traps individuals in a cage of increased technological efficiency and rational calculation. In such a way behaviour is dominated by goal orientated rationality in western societies, particularly those with highly capitalist systems of government.

As will be discussed at greater length in chapter 4, it is important to acknowledge that groups of texts function ideologically as a collective discourse. From this perspective the texts can be seen to further the interests of particular groups and that power is embedded in the texts and this underlies meaning and influences practices.

“Critical discourse analysis is ‘critical’ in the sense that it aims to reveal the role of discursive practice in the maintenance of the social world including those social relations that involve unequal relations of power” (Jørgensen & Phillips, 2002: 63).

In such a way the texts can be seen as a series of attempts to maintain control and impose order over subjects (shareholders, the public, institutions etc.) by the mobilisation of embedded power. Therefore power relations are constituted in the discourse of corporate governance, embodied in the texts and from a Weberian perspective, “form a cage in which only certain actions are possible” (Hardy and Phillips, 2004: 303). The cage is both structural in the sense that regulation defines the framework of action, and behavioural in as much as certain behaviours are seen as desirable. The plausibility of these positions will be elaborated upon in greater detail in chapter 4.

2.10 Conclusion

This chapter has reviewed some of the main literature in relation to the research question presented in chapter 1. It started by examining the important theoretical perspective on which corporate governance regulation rests, namely agency theory and managerial hegemony theory. It then proceeded to examine some of the specific issues which are relevant in the context of the research question; issues such as pay and performance, transparency, accountability and remuneration committees. The final section of this chapter devoted itself to a review of the key concepts employed by Pierre Bourdieu and the potential implications for power, governance and remuneration and in doing so has reviewed the contributions made by modern scholars in defining an evolving thread of work centred around the analysis of elites.

This chapter has explored a diverse cross section of literature, which has encompassed a variety of academic traditions. It has attempted to contextualise these academic approaches with a review of relevant contemporary texts, which form part of the modern discourse relation to the key issues of inequality, remuneration and accountability.

Chapter 3. Methodology

3.1 Introduction

The overarching purpose of this chapter is to discuss the research philosophy employed in pursuit of the research questions, which were identified in chapter 1. However, the reason for its inclusion is more than that. The chapter also aims to provide substantive justification relating to the choice of methods and how they complement each other to ensure the findings are reliable and coherent.

The chapter is structured as follows. It begins with an explanation of the overall approach taken in pursuit of the research questions, and it explain the ontological and epistemological positions taken in the approach to the fieldwork. Secondly the design of the research will be described. It will then seeks to explain the rationale for the choice of data sources which were selected. This is followed by a discussion relating to the methods used to collect the data. This section will attempt to justify the boundaries of the research framework and also to define the paradigms adopted. It will then move to highlight any ethical issues before finally explaining how the data was sorted, analysed and interpreted.

3.2 Research design

This study adopts a mixed methods approach and consists of three principle methods of investigation.

1. A quantitative database of directors from a sample of 29 companies that were contiguous members of the FTSE 100 between 1980 and 2013.
2. Interview data from both members and professional advisors to the Greenbury committee.
3. Discourse based analysis of relevant corporate governance texts, reports and other written material. Also encompassing various media sources, including newspapers.

The indicative research design is illustrated below:

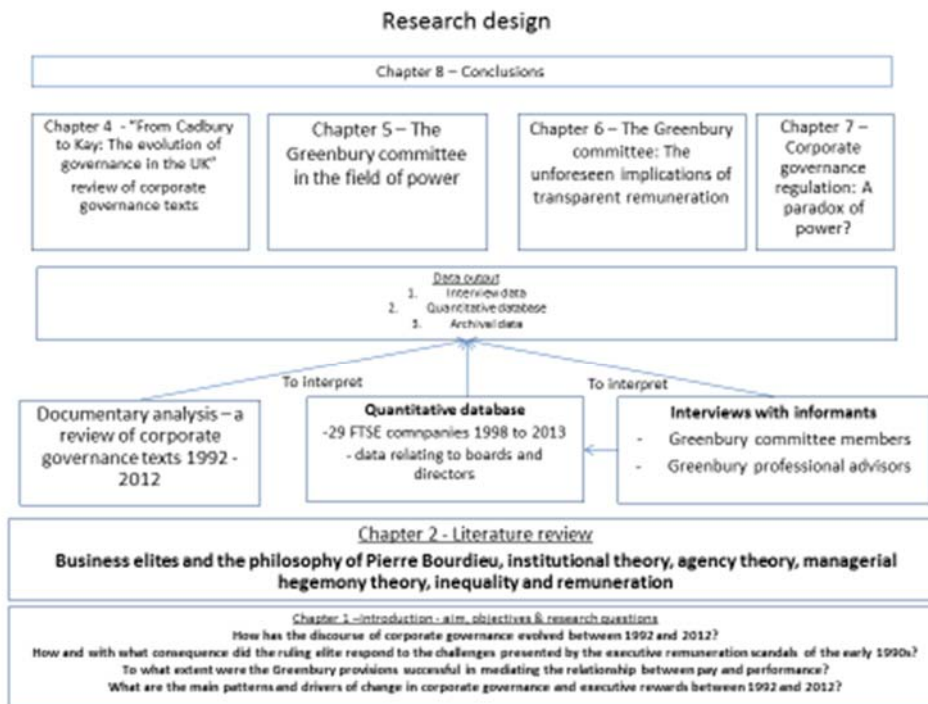


Figure 7: Indicative research design. Source: Author

The rationale for choosing to adopt a mixed methods approach is that different methods are more appropriate for obtaining different types of data. Positivists would argue that the world is stable and can be objectively observed (Bryman and Bell, 2011) and there are certainly facets of the information that will be collected, which conform to this ontological principle. However, there is another interpretivist tradition, which seeks to explain the existence of certain phenomena which this study aims to embrace. Although this is a competing position to positivism it can also be seen as a complementary tool for understanding the world. For instance, if we examine solely the data that is publically available in annual reports, then this simply is representative of what firms choose to disclose and what the UK code prescribes that they should in the first instance. The methodology chosen is important because it explains the nature of the relationship between theoretical and empirical knowledge, that is, how the theoretical foundations of governance frameworks relate to the reality of everyday practice. The methodological point of departure is secessionist²⁷ in the tradition of Marx (1965) and more recently of Berger and Luckmann (1966) to the extent that the UK code itself, is an entirely historically and socially constructed framework, whose evolution is based on a range

²⁷ The basic contention of this argument is that reality is socially constructed, and that the sociology of knowledge must analyse the process in which this occurs. See: Berger and Luckman (1966: 13)

of historically significant events as a result of contestation, power and conflict (chapter 4 summarises the recent evolution of corporate governance discourse).

Therefore to obtain a deeper and more nuanced understanding, there is a need to analyse data which is only publically available which is the case in respect of the analysis laid out in the fourth chapter, but also data that isn't available and historical in nature, in the context of this research project this is acquired through the use of oral history interviews is applied in chapters 5 through 7. Therefore it is not only important to understand what constitutes reality in terms of corporate governance, for example its codes, process and cultures, but "also with the processes by which any body of knowledge comes to be socially established as 'reality'". (Berger and Luckman 1966: 15). In other words, how the codes came to constitute that 'reality'. The methods employed in this thesis share this epistemological foundation, in so much as they seek to understand and critique normative conceptions of important issues.

There are a number of justifications for employing mixed methods. A highly cited study by Greene, Caracelli & Graham (1989) suggested five justification of mixed methods, they are triangulation, complementarity, development, initiation and expansion. Of these, triangulation is particularly important as, "all methods have inherent bias and limitations, so the use of one method to assess a given phenomenon will inevitably yield biased and limited results" (Greene *et al.*, 1989: 256). What the design strategy employed seeks to deliver is the interpretation of one data set, by another, in assessing the same conceptual phenomenon over similar periods. Therefore in this research a particular set of variables are examined over a set period across all methods, for instance the period under examination in chapter 4 is the same as the period analysed in the quantitative database and debated in the interviews. This congruity is meant to contribute to the robustness, relevance and authenticity of the findings.

Another aspect of Greene's framework worthy of mention is the extent to which by adopting mixed methods, "seeks the discovery of paradox and contradiction, new perspectives or frameworks, the recasting of questions or results from one method, with questions or results from another method" (Greene *et al.*, 1989: 259), which the authors describe as, "initiation" (Greene *et al.* 1989: 257), which prompts new interpretations or insights. This is particularly relevant in respect of the research because, not all methods were deployed concurrently. In generating a database and conducting discourse analysis of the corporate governance texts, this allowed the interviews to question observations from the other methods, therefore

attempting to create a deeper more nuanced explanation of the observed phenomenon than would have otherwise been possible.

Mixed methods also helps address the research question which were set to the extent that it not only helps to identify ‘patterns’ of change, but also ‘consequences’, ‘relations’ and ‘drivers’ (Bryman & Bell, 2011). In this respect, the multiple methods seek to address the same phenomenon, for example executive remuneration, but which take different approaches to investigate that phenomenon. Knowing the patterns which identifies the problem, but understanding causation, leads to the development of tractable solutions. In such a way, the expectation is by the end of the research the various strands of research are, “integrated to provide a fuller understanding of the phenomenon under study” (Tashakkori and Creswell, 2007: 108). With this in mind, the objective of this research was not to establish some interpretation of ‘truth’, but merely to question some of the understandings that corporate governance frameworks have been founded. Social scientific research will always be, “tentative and imperfect, [but it] can help redefine the terms of debate, unmask certain preconceived or fraudulent notions, and subject all positions to constant critical scrutiny” (Piketty, 2014: 3).

3.3 Overall approach and epistemological positioning

Method is normally principally derived from either ontology, which is a conception of what is believed to exist, or from epistemology, a conception of the possible forms of knowledge and the origin and limits of human knowledge which can be obtained (Hindess, 1977). There are many ways of perceiving the world but a classic frame of reference when discussing ontology is that of Burrell and Morgan (1979) who developed a framework to help classify various philosophical approaches. Essentially, their work suggests that social theory sits in a matrix and is either interpretivist or functionalist (or some variation of either). This study pursues aspects of both of these paradigms. The functionalist (or positivist) approach would involve examining objectivity explanations for, or causation of, regulation, for example. Conversely an interpretivist approach acknowledges human interest and suggests that reality is socially constructed. In this study, issues such as language and meaning are deemed to be socially generated and therefore highly context-dependent.

The ontological position taken in this research, is broadly interpretivist. The research is presented by starting with what Swartz (1998: 56) describes as an “objectivist moment”. This

is characterised by the objective numerical data presented. However this objectivism is then broken with, to allow the generation of subjective knowledge, “since objective knowledge establishes the conditions in which interaction occurs and subjective knowledge is produced.” (Swartz 1998: 56). This approach is consistent with the overall design of the research previous identified, but it is also loyal to Bourdieu’s methods, such as that employed in his 1984, *‘Distinction’*. This will be further elaborated up in the subsequent section of this chapter.

The interviews are interpreted as accounts of interactions of those that were present at the time and that any interpretation of ‘reality’ is dependent on human perception and interpretation. The theoretical concepts outlined in chapter 2 and debated in subsequent chapters are socially constructed and usefulness of this paradigm is in illustrating the “complexity and meaning of situations” (Black 2006: 319), which facilitates answering the research questions. The structures and perceptions discussed herein are developed from interactions between those in the field of power, which yield meaning in a socially-constructed manner. Therefore, what is said and by whom, and how language is applied, is crucial to understanding this ‘reality’. Additionally the use of language, particularly in textual form, is important (particularly in chapter 4) as its represents the results of conflict, debate, power and negotiation. This will be further elaborated upon later in this chapter.

This research is based on an analysis of social phenomenon and is guided through, “meaning and human agency” (Lewis and Ritchie, 2003: 17). The outcomes are therefore generated as a result not only of the interpreted meaning of the participants, but by a variety of sources all of which form a nexus of the ‘sociology of knowledge’ described above. In this respect, the findings are a result of a diverse and complex set of interactions through which meaning is ultimately created and in the interpretivist tradition, this study seeks to understand how this meaning is created (Bryman and Bell, 2011).

A final point to make pertaining to interpretivist research is the inseparability of the researcher and the data. In this respect process and context have a direct and active influence on the research. In this respect the values and beliefs of the researcher cannot be set apart from the results generated (Goulding 1998). The researcher is conceived of as an integral part of the research and as such forms a link between the knowledge presented and the experiential context that the research subject exists in. The findings and knowledge presented in the latter chapters is therefore a creation of both the research subject and the researcher.

The approach taken is historical and iteratively critical. It acknowledges that chronology is important and that events are contextual to their time. It considers the dynamic nature of corporate governance and the iterative development of the area resulting from, “complex layers of prior models upon which the new models become sedimented” (Suddaby, Foster & Trank, 2014: 113). The approach seeks to explain the present through the identification of (dis)continuous social forces or causal chains bearing upon it (Collingwood, 1993). The focus is on explaining the *historical emergence* of key contemporary phenomena (Leblebici, 2013) which, in the context of this research, are issues surrounding accountability, transparency and merit. This research can be characterised as “history as explicating.” (Maclean *et al.* 2015a: 11) In this tradition of research, “comprehensive arguments emerge from the interplay of theoretical ideas and historical evidence, leading to new interpretations of past to present and theoretical refinements”. This characterisation is particularly appropriate given that empirical analysis is deployed to contrast periods of change, which are rapid, with contrasting periods of relative stagnation.

The research is therefore historical in the sense that it describes a reality, which is not in the present, but located in the past, and thus is a semi-subjective reconstruction of that reality. Therefore the empirical material generated through historical accounts of key informants is reflective of the interactions that took place at the time and contemporary social construction of that reality. This requires a deconstruction of meaning located in the appropriate epoch, that is, an approach which is nested in the humanities and questions the definitions presented by the pseudo-science of modern organisational linguists (accountants, regulators, chief executives and others),

“In the rush to be scientists, scholars have been overly detached from the philosophical, philological, historical and hermeneutic traditions” (Zald, 1993: 514).

The constructionist (rather than realist) tradition drawn upon is in the tradition of Marx (1965; 1988) and subsequently Berger and Luckmann (1966) who argued that knowledge and reality is derived, maintained and augmented by social interaction, that is the relationship between human thought and social context. This is what the authors describe as ‘sociology of knowledge’ and is essentially based on social relations.

“What concerned Marx was that human thought is founded in human activity ('labour', in the widest sense of the word) and in the social relations brought about by this activity” (Berger and Luckmann, 1966: 18).

From this perspective, consciousness is determined by the social interactions and that these interactions are a contested site concerning power and conflict, from which meaning is created. From this perspective not only is the interview a site where such behaviours occur, but the interaction between the interviewees and others in a historical context may be construed as such. Therefore the empirical information that has been generated forms an additional social situation separated from the original primary site (the original site of action).

3.3.1 The critical sociology of Pierre Bourdieu

In pursuing this research, appropriate theoretical and analytical tools are required. The Bourdieusian concepts presented in chapter 2 are used to interpret the data presented in chapter 5 and chapter 7 principally. As noted in section 2.8, Pierre Bourdieu was a social theorist, whose work was grounded in empiricism (Swartz 1998). The general approach of this research is not dissimilar to the methods he employed in many aspects of his work²⁸. Therefore in solidarity, there needs to be some discussion of the methods he used to interpret the world as internal consistency is important.

For Bourdieu, sociology begins with the actions of actors, and these actions cannot be taken at face value. This objectivism only represents the starting point for the development of subjective knowledge as Swartz (1998: 56) explains,

“This epistemological stance is necessitated by the very nature of insider accounts of their own practices. Insider representations reflect the practical logic of getting along in their social world, and hence are to be understood as instruments of struggle for practical accomplishments rather than attempts to draw a coherent and objective picture of actor behaviour”.

²⁸ Bourdieu used a wide variety of methods to develop his social theory. In addition to his empirical work in ‘Distinction’ for instance, he was also an accomplished ethnographer, notably conducting social research amongst peasants in Algeria in the 1950s.

Therefore to Bourdieu, all human action is determined by structures that are not evident in everyday consciousness and as such, need to be constructed by social science. With this in mind, this study explores issues of statistical significance (pay data for instance), but also simultaneously questions the stark objectivism of statistical patterns in solidarity with Bourdieu's teaching, that, "social scientific investigations must include qualitative indicators as well as quantitative data" (Swartz, 1998: 59). Therefore with this in mind, Bourdieu (1990) building on Kant, suggested that structures not only mediate action in the sense they generate *conditions of possibility* (what can or cannot be said or done) but they also constitute it. Therefore, structures are themselves socially constructed through the everyday behaviours of the agents who constitute the structure. Corporate governance is an excellent example of how structures evolve and lead [theoretically at least] to certain behaviours (for example, Bourdieu's notion of "structuring structures," Bourdieu, 1990: 53)). If we consider the UK code of corporate governance, for example, it can be proposed that it has developed as a result of the social construction of ideas, formed through human behaviours, interactions, power and, *inter alia*, perceived norms (this idea was introduced in section 2.7.4). Therefore adopting Bourdieusan concepts such as field, habitus or capital, in the analysis to interpret the findings in terms of how the social world is constructed, is entirely appropriate in the context of the study.

The rationale for imposing (it that indeed is what has been done) Bourdieu's social theory in the findings outlined in chapter 5 and chapter 7 is that his method's allow a break with subjectivism. In collecting the subjective view of participants we can examine the "*instruments of domination*" (Bourdieu & Thompson 1991: 165) reflected in corporate governance practice, "for Bourdieu, the fundamental task of sociology is to disclose the means by which systems of domination impose themselves" (Swartz 1998: 56). This means starting with an "objectivist movement" (Swartz 1998: 56), in terms of the normative classifications or features of regulatory bureaucracy (chapter 5), executive remuneration (chapter 6) and power relations (chapter 7), then breaking with these everyday representations to allow for "critical reflection on the specific character of theoretical practices" (Swatz 1998: 58). This is importance because as will be identified in chapter 4, corporate governance practice is laden with structures, some formal and visible, but others less so, "objectively analysing these structures cannot explain the genesis of [these] structures" (Swartz 1998: 59).

Therefore in summary, Bourdieus thinking is very much a relational, conflict laden, hierarchical view of the world, where the unconscious and invisible are as relevant (if not more so) than the conscious and visible. In illuminating the former, his theory has the potential to yield fresh insight into the field of corporate governance.

3.4 Data sources and methods of collection

3.4.1 The data set

The first data set in this thesis was a database comprising the twenty-nine companies that were contiguous members of the FTSE 100 between 1980 and 2013. Any lack of contiguity in a company meant that it was removed from the sample. So companies that have either delisted or merged, or had substantial revisions to their corporate structure were omitted from the data set. In the FTSE 100 as of the end of 2013, 29 companies have remained in the index throughout the entire period. The objective of the data set was to observe empirical changes in corporate governance on a longitudinal basis, which would then provide a basis for triangulating other data.

This study, in the construction of the database, analysed 667 annual reports²⁹ to map the trends in remuneration and the composition of the board of directors. These reports were obtained from the Newcastle University research reserve based in Gateshead, the London Business School library, company annual reports collection and in electronic copy from the respective company websites. The longitudinal extent of specific variables varied, for instance the data on remuneration was present in annual reports since 1948 as a result of the 1948 Companies Act³⁰ (see section 196 of the act pertaining to directors salaries) so data on salaries was disclosed in each case, in the form of the highest paid director. Further variables were only available as revisions of the companies act and the imposition of the UK code of corporate governance forced disclosure by companies, thus the longitudinal extent of some variables varied according to availability.

Some of the 29 companies in the dataset have changed or evolved in respect of their name and often their corporate structure, and these are detailed below. In addition many FTSE 100

²⁹ Not all reports were available in each year. There are a very small number of gaps in the database and this varied according to which variable data was collected on.

³⁰ The companies act was revised in 1967, 1976, 1985, 1989 and most recently in 2006. See www.legislation.gov.uk

companies have been subject to a substantial amount of restructuring as a result of merger or acquisition activity, which impacted significantly on their corporate structure and size. Therefore many of these businesses were excluded from the data set as the size and structure of their business varied so enormously over the 15 year period as a result of such activities. An example is Glaxo Wellcome who merged with SmithKline Beecham on the 18th of January 2000. The new business Glaxosmithkline therefore bore little resemblance to Glaxo Wellcome and therefore, this company was removed from the sample.

There are however, a number of businesses contained within the 29 company sample, where the material change to the governance arrangements were deemed to be comparatively insignificant following a merger, delisting or name change. These are as follows:

- British American Tobacco (BAT) was formally known as BAT Industries since its incorporation on the 23/07/1997. Therefore the figures from the annual reports for 1995, 1996 and 1997 are drawn from the BAT Industries annual report.
- In the same way BP Group PLC (BP) was formally registered as the ‘British Petroleum Company PLC’ until 31st of December 1998. It then, following a merger with Amoco, adopted the name BP Amoco until May 2001 when it adopted its current name;
- The Shell Transport and Trading Company was delisted on the 29th of July 2005 following Shell’s decision to move to a single capital structure in the wake of serious misconduct charges resulting in a £17 million pound fine imposed by the FSA. The new company was called Royal Dutch Shell PLC (RDSA) and maintained its status in the FTSE 100;

A screenshot depicting one area of the database is illustrated below in figure 8.

| EPIC Code | Report | | Name | Honour | Position | Directorship | Remuneration | | Citizenship | Sex | DOB | Approx Pre University | University | |
|-----------|--------|--------|-------------------|--------|----------|--------------|--------------|--------|-------------|-----|-----|-----------------------|------------------------|------------------------------|
| | No | (Year) | | | | | Other | Member | | | | | Co | Elite/Non Elite |
| RR | 1990 | Sir | John Weston | | NED | | 1 | | British | m | | 61 | Sherborne | Oxford |
| BARC | 1998 | | Andrew Buxton | CMG | NED | | | | British | m | | 59 | Winchester | Oxford |
| CWC | 2005 | | Agnès Touraine | | NED | | | | French | f | | 50 | | Institut d'Etudes Politiques |
| ULVR | 2005 | | Anthony Burgmanns | | NED | | | | Dutch | m | | 59 | | Stockholm |
| MKS | 1990 | Dame | Stella Rimington | | NED | | 1 | | British | F | | 62 | Nottingham High School | Edinburgh |
| LAND | 1998 | Sir | Alistair Grant | | NED | | | 1 | British | m | | 61 | | No Degree |
| RDSA | 1998 | Sir | Anthony Acland | | NED | | | | British | m | | 68 | eton | Oxford |

Figure 8: Screenshot of database

3.4.2 Definitions

This short section will explain how certain variables have been defined. This is important as many of the terms referenced in the study require concise definition in order for the results to be consistent and robust.

Company secretary.

All public companies in the UK must have a formally appointed company secretary. There is no statutory definition of what their role entails and as such varies enormously from company to company. Generally however, they are responsible for managing the company's records and filing these with Companies House. They often take a lead on governance issues, particularly in respect of ensuring compliance with statutory and regulatory requirements. For the purpose of this research the company secretary has neither been counted as executive or non-executive unless the accounts *explicitly state* that the company secretary is either an executive director of the business (in which case will hold voting rights) and/or holds a dual role such as that of chief financial officer and company secretary. There were no instances within the data set where a company secretary is deemed to also be a non-executive director of the company.

Elite/non-elite universities.

Where the director attended university, the institution they attend were usually recorded. If the director has attended multiple universities the first and the last have been recorded. So for instance Dr Chris Gibson-Smith who is chairman of the London stock exchange and is a former BP non-executive director attended multiple universities over the course of his career. Dr Gibson-Smith attended Durham University gaining a BSc in geology before moving to Newcastle University to obtain his PhD in geochemistry in 1970 before finally attending Stanford University where he was awarded MSc in business in 1976³¹. Therefore the universities recorded will be Durham and Stanford. The executive must have been awarded a

³¹ Source: Who's Who 2014 http://www.ukwhoswho.com/view/article/oupww/whoswho/U4000187/GIBSON-SMITH_Christopher_Shaw?index=1&results=QuicksearchResults&query=0

degree from the institution to confirm attendance. Non or incomplete descriptions completions were discarded.

Classification – ‘The 2013 Times higher education world university rankings’ was used to define the status of institutions as either elite or non-elite. In the UK and the US the top 11 were identified as elite and the top 4 in each region were considered ‘hyper elite’. These ranking where chosen as 2013 was the most up to date list available at the time the data was analysed and represents a “definitive list of the world's best universities” (THE 2015). This data is trusted by governments and universities worldwide and impacts key decision makers and policy makers (Clarke 2007).

UK

| | |
|----|----------------------------|
| 1 | University of Oxford |
| 2 | University of Cambridge |
| 3 | Imperial College London |
| 4 | University College London |
| 5 | London School of Economics |
| 6 | University of Manchester |
| 7 | King's College London |
| 8 | University of Bristol |
| 9 | Durham University |
| 10 | University of York |
| 11 | University of Edinburgh |

Table 1: Top 11 UK universities. Source: Times higher education world university rankings

United States

| | |
|----|--|
| 1 | California Institute of Technology (Caltech) |
| 2 | Harvard University |
| 3 | Stanford University |
| 4 | Massachusetts Institute of Technology (MIT) |
| 5 | Princeton University |
| 6 | University of California, Berkeley |
| 7 | University of Chicago |
| 8 | Yale University |
| 9 | University of California, Los Angeles (UCLA) |
| 10 | Columbia University |
| 11 | Johns Hopkins University |

Table 2: Top 11 US universities. Source: Times higher education world university rankings

Rest of the World

| | | |
|----|---|-------------------|
| 1 | ETH Zürich – Swiss Federal Institute of | Switzerland |
| 2 | University of Toronto | Canada |
| 3 | The University of Tokyo | Japan |
| 4 | National University of Singapore (NUS) | Singapore |
| 5 | University of British Columbia | Canada |
| 6 | University of Melbourne | Australia |
| 7 | McGill University | Canada |
| 8 | Karolinska Institute | Sweden |
| 9 | École Polytechnique Fédérale de | Switzerland |
| 10 | The University of Hong Kong | Hong Kong |
| 11 | Seoul National University | Republic of Korea |

Table 3: Top 11 Universities in the ROTW. Source: Times higher education world university rankings

Title – The title is only recorded if the individual has had the honour bestowed on him or her, in the year the annual report was published.

Honour - The honour is only recorded if the individual has had the honour bestowed on him or her in the year the annual report was published.

Year – The year of publication of the annual report.

EPIC Code – The organisations in the 29 company sample have been coded according to their EPIC code. The EPIC code stands for ‘exchange price information code’ and every company with a London listing has its own unique code which is normally three or four letters long.

ICB Benchmarking - The data set can further delineated using the FTSE ‘industry classification benchmark’ (ICB) database to define sectors. The objective of defining the sectors was to examine differences or similarities between sectors. The breakdown of the sample into the appropriate sectors is indicated below.

| | |
|------|---------------------|
| 8000 | Financials 10 |
| 4000 | Health Care 1 |
| 5000 | Consumer Services 7 |
| 2000 | Industrials 2 |
| 3000 | Consumer Goods 2 |
| 7000 | Utilities 1 |
| 6000 | Telecoms 3 |
| 1 | Oil and Gas 2 |

Table 4: ICB benchmarking classifications

Highest education. If the individual is a holder of a postgraduate qualification, regardless of whether he or she holds an undergraduate qualification, this is recorded. In the case of multiple postgraduate qualifications the ‘quality assurance agency for higher education’ publishes a framework which ranks qualifications. The highest qualification achieved according to their rankings is recorded. For instance Dr Chris Gibson-Smith holds a BSc, MSc and a PhD, therefore the recorded highest qualification would be PhD.

3.5 Corporate governance texts as a collective discourse

This research employs documentary analysis, in conjunction with interviews with Greenbury committee members, as empirical data, as they are both important sources of information about governance. Chapter 4 reviews these texts and draws some salient observations. In particular, the ‘best practice’ reports published since 1992 have occasioned significant changes in the emphases of governance practices. This contribution is often explicit, in terms of actual revisions that may be recommended into the code, or they may be more implicit in their contribution in the sense that they shape meaning and develop certain logics.

Government publications, reports and press releases are also important data sources, which should be seen to compliment not only the ‘best practice’ reports, but also documents from other important non-governmental organisations such as the financial services authority, the high pay commission or the OECD. These documents can be characterised as natural documents, documents that are, “produced as part of current societal processes, that is, not for the research project in which they are used” (Ten Have, 2004: 88). The next short section provides justification for the discourse based methodology employed in handling these texts.

By ‘texts’, it is meant the various codes that went to make up the corpus of corporate governance regulation, including, *inter alia*, the Cadbury report, the Greenbury report, the Hampel report, the Higgs report, etc. The link between texts, discourses and context (as discussed by, *inter alia*, Fairclough (1992; 2001; 2003), is generally accepted, with texts positioned as the instruments capable of placing meaning in context, and prescribing legitimate behaviours. Fairclough (1992) proposed that the relationship between discourse and social structure are probably mutually constitutive.

Discourse analysis is an established research instrument for analysing a structured collection of texts (Hardy and Phillips, 2004) such as those under examination in chapter 4. In that regard, this chapter draws on the assumptions of Hardy and Phillips (2004) perspectives on discourse, which, “is defined by a set of rules or principles – the rules of formation – that lead

to the appearance of particular objects through the categories and identities that make up recognisable social worlds. Discourse lays down the ‘conditions of possibility’ that determine what can be said, by whom and when” (Hardy & Phillips, 2004: 301). Likewise, Phillips *et al.* (2004) state that, “discourse analysis... involves analysis of collections of text, the ways they are made meaningful through their links to other texts, the ways in which they draw on different discourses, how and to whom they are disseminated, [and] the methods of their production” (Phillips *et al.*, 2004: 636).

Phillips *et al.* (2006: 305) highlighted the key role that texts can play in creating, “concepts [that] are all of the constructions that arise out of a structured set of texts and that exist solely in the realm of ideas,” and, in turn, the important role concepts, such as those discussed in this paper, play in intermediating the meaning of contestable issues in corporate governance. At the very heart of a text is the way it creates meaning, for instance Allen (2011: 37) suggests,

“a texts meaning is understood as its temporal rearrangement of elements with socially pre-existing meanings, Meaning, we might say, is always at one and the same ‘inside’ and ‘outside’ the text”

Similarly, Phillips *et al.* (2004) argued that the relationship between a series of texts, such as those under examination in this paper, is relevant because, “a text is more likely to influence discourse if it evokes other texts, either explicitly or implicitly” (Phillips *et al.*, 2004: 308), a feature similar to what others have called ‘intertextuality’ (Kristeva, 1980; Czarniawska, 2008, Allen 2011). Therefore inasmuch as the corporate governance codes relate to one another, both implicitly and often explicitly, they can arguably be interpreted as a collective discourse of overlapping and mutually-reinforcing themes. The language employed throughout the selected texts, makes powerful statements relating to how businesses should be governed and are reflective of conflicting logics, which are publicly aired (Purdy & Gray 2009). These texts are rendered powerful partly by the perceived legitimacy of the authors and the commissioning organisations. In such a way, they are accretions of influence that can be analysed as a longitudinal whole as well in their individual forms.

In this regard, the canon of corporate governance regulatory texts (such as when collected and reproduced in the UK code) function ideologically to some extent. It is not controversial to suggest that these texts advance the causes of particular vested interests, and that power is embedded and underlies meaning and influences practices. In this way, the texts can be conceived of as a series of attempts to maintain control and impose order over subjects (shareholders, the public, institutions, etc.) by the mobilisation of embedded power.

Therefore, in the Weberian sense, power relations are constituted in discourse and, “form a cage in which only certain actions are possible,” (Hardy and Phillips, 2004: 303). Critically, this ‘cage’ is both structural in the sense that regulation defines the framework of action, and behavioural in as much as certain behaviours have increasingly become seen as desirable, as will be discussed in chapter 4.

The corporate governance texts are also important because they legitimise certain desirable governance behaviours both directly, in the explicit statements they make, and indirectly, in the way they attempt to shape context and culture, and, in turn, to influence subsequent revisions to the code. It is therefore, we argue, through a blended and commuted textual discourse that describes and communicates appropriate structures and behaviours, that businesses are putatively governed. The study of texts and language is considered important as it is primarily through the discourses conveyed in those texts that influence is gained and traction over behaviours is attained (Phillips *et al.* 2004). Accordingly, there is a central importance of rhetoric in the process of change (Suddaby and Greenwood, 2005; Golant, Sillance, Harvey & Maclean, 2014; Maclean *et al.*, 2014b). The texts form a powerful, historically situated body of work and therefore by reinforcing and reinterpreting one another the authors are, “demonstrating their credentials as guardians of a shared heritage, thus claiming their legitimate right to direct and manage” (Maclean *et al.*, 2014b: 558)

In a practical sense a node framework was established in Nvivo to enable the capture of content coded under each prominent theme or signifier, and these were then time-indexed to allow the longitudinal mutation of meaning and emphasis to be analysed (See Appendix 1). Signifiers have been employed previously in semantic studies of this type, where certain terms are taken as surrogates for the main themes being analysed. Sinclair (1995: 224) discussed a similar approach when employing, “common phrases and some validation tests” to signify meaning. This involved looking, “at the linking of words and the way meaning was accumulated through the intertwining of content and context,” (Sinclair 1995: 224) (see also: Weedon, 1987, Turner, Hogg, Oakes, Riecher & Wetherell 1987, Calas & Smircich, 1991). This approach facilitated the construction of taxonomies using language that was broadly identified as congruous with the prominent themes (see Appendix 4). Having done this, it was possible to analyse the specific context in which the word was employed and thus evaluate the emphasis of the language in its context.

The methods employed are situated in the texts and hence an inductive, interpretive method was adopted which led to the two prominent themes being generated directly from the texts

(namely, behaviour and structure). In this way, the data generated was based solely on the text rather than generated from exogenous ideas or conjecture. Analysis of change was analysed not only by examining the changing context and meaning of the signifiers, but also, using semiotic assumptions, by the frequency in which each one occurred over time.

The research project also harvested documents from media archives in order to contextualise and substantiate many of the issues raised. The approach to collecting this data was using the search function of the Nexis database³². Once the search was run a sample of the articles which were returned which were, there tended to be a bias toward the broadsheet and the financial press who tended to provide a more detailed coverage of the topic that was being searched for. Predominately information collected from media archives was used in chapter 5 to understand the zeitgeist at the time of the Greenbury report in the mid-1990s.

3.6 Data analysis

Nvivo is a qualitative software package designed to “assist researchers with organising, managing, interpreting and analysing non numerical qualitative data” (Houle, Staff, Mortimer, Uggem & Blackstone, 2011: 95). It was used both in the analysis described above in section 3.5, but also in organising the interview data described in the next section of this chapter. The relevance of the software is in providing analysis of the density of particular themes and crucially in being able to organise the large corpus of data used in this thesis into distinct sections. A crucial point to make is that Nvivo is a tool used for data analysis and not a method in itself.

The approach used to analyse the interview transcripts was a variation on the hermeneutic analysis developed by Richie & Spencer (1994) which is called ‘framework’. The term ‘framework’ comes from the use of a thematic framework which is a central component of the model. It is an analytical process of analysing qualitative data which goes through a number of distinct stages. The authors described it as a “fool proof recipe with a guaranteed outcome” (Ritchie & Spencer, 2002: 177). The general objective from using a structured method of analysis was to define the themes, map the dynamics of the phenomena then to find associations and seek explanations from the data. This helps to ensure a structured approach

³² The Nexis database is an online repository of historical newspaper archives.

to the analysis, thereby facilitating outcomes which were congruous with the aims of the research.

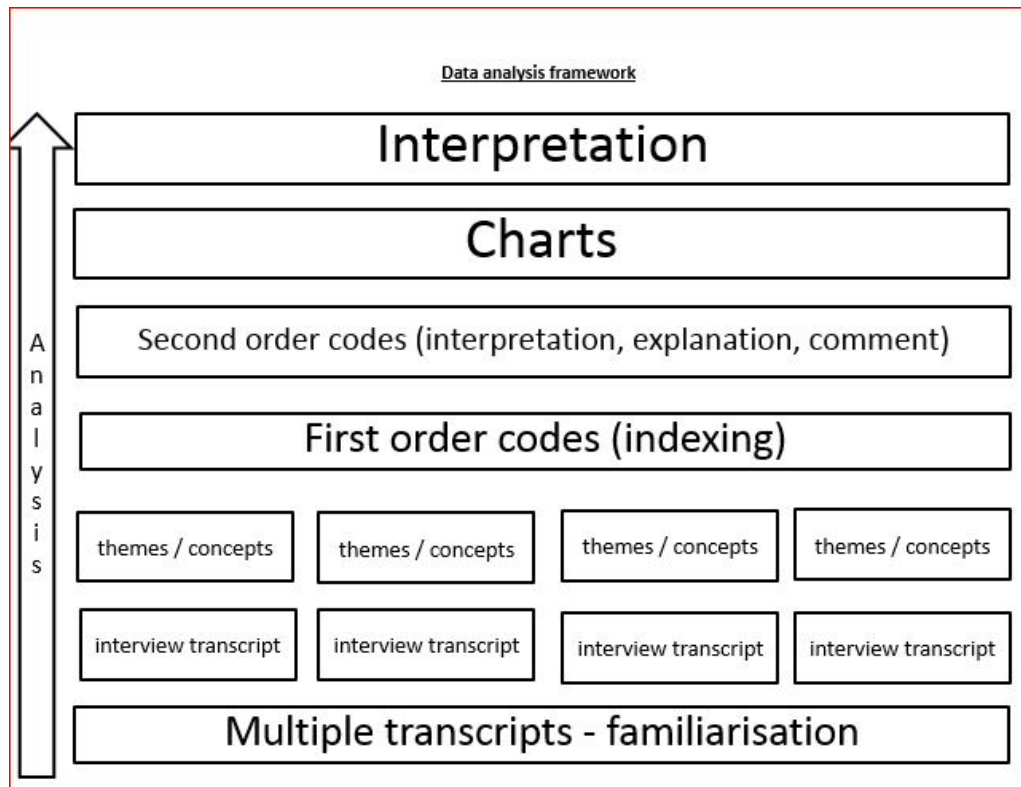


Figure 9: Interview data analysis framework as applied in the Nvivo instrument. Source: Author

Richie and Spencer’s ‘framework’ (1994) has been widely applied in the context of the social sciences and has been modified to fit the context and draw on the strengths of other similar methods such as Tilba and McNulty (2012) for example. What has essentially been designed is a inductive coding system employed to analyse the data. The procedure for analysis unfolds thus. The transcripts were read and re-read and then broken up into concepts, first order codes are thematic inasmuch as they represent the context discussed by the interviewees during the interviews. These covered topics, included regulation, remuneration, accountability or ownership, amongst other topics (see Appendix 2). At this point the data is triangulated using multiple transcripts and were subsequently drawn together. The overarching themes are then created which were reflective not only of the issues identified in the first order codes, but also where there was a site of contestation in the literature. Second order codes are the interviewee’s interpretations, explanations or comments on the first order codes but they are also more than that. They seek to provide explanations, make associations or illustrate

processes. As mentioned previously the entire process was undertaken using Nvivo, which enables the data to remain well organised and easy to manipulate.

This form of analysis is inductive, and allows for progressive and systematic interpretation. The idea was in following a hermeneutic analysis of this kind, a progressively deeper understanding and by association, a richer interpretation of the subject matter can be achieved. Hermeneutics is a major philosophical approach to the study of organisations (Buchanan and Bryman 2009) in so much as it posits artefacts and their underlying meanings. This is why this form of analysis allows the researcher to “draw out... the unspoken tacitly known, everyday commonsensical values, beliefs, and/or feelings /sentiments that comprise those meanings” (Buchanan and Bryman 2009: 40). In such a way this form of interpretivist analysis can analyse multiple, potentially conflicting meanings which in turn allows for the effective integration of theory and practice.

3.7 Interviews

The interview site is a social situation where the author and the interviewee generated empirical material that is then interpreted (Alvesson and Skoldberg, 2000). The interview component of the data collection took the form of a series of in-depth semi-structured interviews with members of the Greenbury committee. There were 11 interviews, which took place in a variety of locations. In most situations, the site of the interview was the home or current workplace of the interviewee, although one interview did take place at Newcastle University Business School. The duration of the interviews varied between 1 and 4 hours and the transcripts produced as a result varied between 6000 and 14000 words. All the living original members of the committee consented to take part in this study with the exception of Sir Denys Henderson who was unfortunately too ill to meet. Sir Iain Vallance did not agree to be interviewed in person, stating he was too busy, but instead he submitted a written contribution to the study in response to email questions.

Typically the more structured the interview the greater the granularity of the data is possible (Buchanan and Bryman, 2009). Therefore the semi-structured approach taken fits with the aims and context of the research. The format of the interviews did not use a structure approach, and to this end there was no specific instrument applied. Rather, as will be subsequently discussed, they represented an inductive, semi-structured approach, where the conversation flowed albeit around certain key topics. This approach allowed us to study the individuals as constituents of the elite group (a form of oral history interview described

below) and also, the more general topic and issues. The range of issues on which the questions were broadly based, along with a sample of some of the specific questions, are listed in Appendix 5

This component of the research is situated within the social constructionist (rather than realist) paradigm inasmuch as meaning and outcomes are generated as a result of interactions, argument and negotiation within the social world, and that this world is created through language, by which 'reality' is constructed (Berger and Luckmann, 1966). This epistemological position aligns itself with the research objectives in the way that organisations are governed, and is as a result of conflict and negotiation, of struggle, power and dominance. These themes are reflected in the social order created to assign meaning and value.

In this chapter, an augmentation of the social constructionist perception is the relational method (or relational thinking) adopted by Bourdieu in his analysis of class-based French lifestyles (Bourdieu 1984). As internal consistency is important in the sense that the methods employed relate to the substantive positions taken on the issues which are discussed in the later chapters, it is important to identify the method and the assumptions made about the fundamental character of the social world. Therefore the starting point of the interviews is that there are issues of power, domination, competition and hierarchy embedded in the social world, and that these may lead to both intended consequences, but more importantly, may also lead to unintended consequences through unconscious behaviours or actions (which echoes Bourdieu's notion of *habitus* previously discussed).

3.7.1 Interviewing elites

The interview cohort used is with what may be described as 'elites' to the extent that such a population exists as a cohesive unit, or is possibly fragmented into more loosely bonded groups. Nevertheless, this term shall be presupposed for the purposes of this inquiry to be representative of the cohort interviewed. Interviewing elites presents many opportunities for potentially rich and detailed findings given their structural proximity to governance and influence. However it also presents some challenges. The existence of barriers to keep other members of society out of the elite, is partly what defines a community as elite (Hertz & Imber, 1995). Dexter (2006) illustrated the conundrum in the following way,

“I am not happy with the term ‘elite’ with its connotations of superiority. Yet I have found no other terms that is shorthand of the point it want to make. Namely that people in important or exposed positions may require VIP interviewing treatment on the topics which relate to their importance or exposure” (Dexter, 2006: 5).

There are a number of hazards to be cognisant of, both before, during and after the interview. For example, one of the issues is the interviewee may truncate or restrict access for personal or strategic reasons. Keating (1993) termed this, ‘closing off,’ and is a potential danger for two principle reasons. Firstly, given the sensitive nature of the topic, the interviewee might not want to discuss certain aspects of it, which may have negative implications. Secondly the unequal power relations between the interviewer and the interviewee may lead to this phenomenon. These relational effects of power are an important consideration and present themselves throughout the entire process of the interview, from first contact through to any follow up questions that may be required, “one of the main problems associated with gaining access to interviewing elites revolves around the unequal power relations that lie in wait for researchers” (Rice, 2010: 71). Therefore the ability of the interviewee to ‘close off’ or control the agenda, is an important consideration for the interviews which form part of this research.

The interview site and timing, conveys a sense of power within itself. “The interview site embodies and constitutes multiple scales of special relation and meaning which construct the power and positionality of participants” (Elwood and Martin, 2000: 649). Therefore in this context, there was a consideration of the holistic nature of the interview, as a process, and not simply as a single event. Every part of the interview process mediated the quality and quantity of data gleaned from the interview, from initial greetings to final remarks. Positionality is important in relation to the power relations between the interviewer and interviewee, because given the assumed differential in power elite subjects, some may attempt to dominate the interview because they are, in many cases, professional communicators (Fitz and Halpin, 1995). So as a result, researchers may display a form of ‘hostage syndrome,’ (Welch, Marschan-Piekkari, Penttinen & Tahvananainen, 2002) by suspending effective judgement in the face of the displays of power. The status of the interviewee is therefore an important strategic issue, which has received increasing consideration in the organisational arena (Buchanan & Bryman, 2009; Denzin & Lincoln, 2005). Although the interview may not contain an explicit struggle for power, there may be an, “negotiation of meaning at work

because the interviewer and the interviewee are challenged by each other's assumptions and discourse of learning." (Tanggaard, 2007: 172) and also because in the context, there might be perceived to be something at stake³³. Particularly in the case of the interviews with Greenbury committee members, there was often a struggle in the definitions of meaning and definition (over the definition of performance, merit and other values for instance). Arguably given the variation of definition within the subject area and the intimate involvement of the interviewees, the struggle for meaning was intended as part of the interview context and will be confronted in the way the data is analysed and interpreted. When, for example, there is contestation about definition, it usually refers to the interpretation of key concepts referred to in the theory such as accountability, power, governance, performance and transparency.

Given the context of interviews the issue of 'closing off' identified previously was occasionally an issue. In each case, alternative renderings of the questions sometime circumvented the problem. Some of the questions for instance, related to decision making have the potential to expose failures of process, or maybe illustrate reckless behaviour. Therefore the interview was flexible with the definition of context, as not to 'give the game away' (the author was unbiased in his approach to each interlocutor). Would the interviewee modify their responses if the analysis of the project constituted an interrogation of their character for instance? This is an important practical consideration of effective interviewing.

Conducting follow up questions once the transcript has been produced, read and digested allows the interviewer to follow up any important points that may have been unsatisfactorily explained or missed during the interview (Thomas, 1993). However there should also be a consideration of the importance of trying to protect the findings (Welch, Marschan-Piekkari, Penttinen & Tahvanainen, 2002), inasmuch as the interviewee may attempt to sensor or interfere with the data. It is therefore important to consider not only what content was chosen to share with the interviewee and the form in which it was delivered. For example, when asking for clarification on certain points or further detail in certain areas, it is necessary to submit the entire transcript to the interviewer or simply a few selected paragraphs?

Previous studies on interviewing elites have recommended the researcher obtain an influential sponsor, which will ensure the co-operation of the interviewees (Welch *et al.*, 2002, Ostrander, 1993). The Greenbury committee was originally commissioned by the CBI, so in

³³ The legacy and the perceived effect of the committee are a site of contestation.

order to gain access to committee members it may have been beneficial to have the support and co-operation of the organisation. But as it transpired, that was unnecessary as almost all erstwhile members were happy to talk without preconditions³⁴.

In the context of access, it became remarkably easier to enlist all members of the committee once Sir Richard Greenbury had agreed to take part and therefore the co-operation of the CBI was deemed unnecessary [and because of their status, possibly misleading]. Sir Richard therefore acted very much as a ‘gatekeeper’ which gave the project credibility and therefore allowed us access to a world, which hitherto had been inaccessible.

3.7.2 Oral histories

The interview data conceivably represents a form of oral history relating to events that took place around 20 years ago. With this in mind, the extent to which the interview component of the study may or may not be considered as a form of oral history is a debateable one and is worth briefly addressing.

This research does possess some characteristics of what may be considered a ‘historical’ approach in so much as it analyses an ‘event’ which of significance that took place. Therefore in defining an oral history, Ritchie (2003: 19) suggested that, “simply put, oral history collects memories and personal commentaries of historical significance through recorded interview.” In addition to this, it may be argued that the issues are historical in nature; remuneration, fairness and accountability are historically contextual. In other words, the scandals relating to the nationalisation of British industry and events at British Gas (described in chapter 5) very much reflected the zeitgeist. These are events probably situated uniquely in their era. Oral histories also differ from simple interviews, to the extent they generally include in-depth narratives about a person’s life which is of historical significance (Haynes 2010). Oral histories can help to develop new or contradictory narratives to that which is formally reported. For instance, “in accounting, when the dominant story is of regulation, shareholder value, and capital, rather than struggle, individual experience and practice.” (Haynes, 2010: 222-223).

³⁴ A director [Sarah Green] of the CBI was contacted in this case. She was unaware of the existence of such evidence and therefore we can assume, without further investigation, that none exists.

The reasoning why oral submissions are useful in the context of the current research may be summarised by Ryant (1988) who stated, “oral history is a particularly valuable tool because it can fill gaps in the historical record created by the practice of making important decisions without much paper documentation” (Ryant, 1988:560). As the ‘grey data’ (minutes of the committees meeting for instance) proceedings of the Greenbury meeting are not available, or if they are they do not form part of the public record, they represent the most comprehensive method of piecing together the thoughts, actions and feelings and *filling the gaps*. In this sense, the research seeks to create a complete and candid account of an important historical event in business history. The interview transcripts are intended to form a reliable record of events, woven with hindsight commentary. However, oral histories are not simply a record of events and proceedings that have taken place or a repository of readymade data (Rowlinson, Hassard & Decker, 2014) they have the ability to deliver new knowledge and to provide challenging insights into mainstream forms of knowledge (Field, 2007). They can do this by giving novel insights into taken-for-granted beliefs and assumptions, which are particularly relevant in the context of this research project.

The other key question to consider, is the extent to which this study can be considered ‘historical’ at all. Historical accounts are not necessarily what actually happened objectively. Rather, they represent the narration of subjective thoughts and experiences, which took place, which leads to the inherent problem of how to, “construct, incorporate, or analyse historical narratives” (Rowlinson, Hassard & Decker, 2014: 251). Therefore the challenge is to be seen as more than a mere repository for, “anecdote and chronology” (Kuhn, 1970: 1) in integrating and contextualising the narratives inasmuch as they have implications for contemporary practice. Given that this study uses primary sources published at the time, these form historical documents which epistemologically, represent what may be considered to be *truth*. However, the difficulty is, that in using the oral history submissions obtained by this study to interpret these documents, a false narrative structure may be imposed upon them (Norman, 1991).

Therefore a key issues in this research was, “what epistemic status do the kind of stories historians tell claim, and what have they any right to claim, in virtue of their narrative form?” (Norman, 1991: 119). Therefore with this in mind and without seeking to enter into an extensive phenomenological debate, do the oral submissions represent a form of modified reality, or do they merely, “give voice to a past that is already narratively structured”

(Norman, 1991: 122). It is conceivable that they provide a combination of the two, but in making these assumptions, there are a number of factors which need to be considered.

Firstly, in terms of the context, the members of the Greenbury committee may have an interest in protecting their legacy for posterity, especially given that some of them are currently active non-executive directors or hold senior positions in other organisations. Speaking too openly to researchers may affect their reputation, which is likely to be important to them. Given the focus of the discussions was principally a historical event, which went on to have empirical and policy significance, it would not be unsurprising if some of the oral submissions may possibly be tinged with some bias in hindsight. This could lead to a suggestion that the accounts collected reflect a consensual and collective reality, which can arguably never fully capture the empirical detail of the past objectively (Lowenthal, 1985). The accounts delivered may represent a form of *rhetorical history* (Suddaby *et al.*, 2010), which is the strategic (and often instrumental) use of the past, to manage the future.

Secondly the ‘voice’ given to the researchers is not only a singular entity in so much as the past is collectively ‘narratively structured’ so what can and cannot be claimed has clear boundaries. So the members of the committee may find it problematic to detach themselves from the collective voice of the committee as a whole. Unfortunately as these issues cannot be meaningfully resolved, these will remain limitations in this research.

3.7.3 The Greenbury committee

The Greenbury committee was established by the Confederation of British Industry in early 1995, at the request of the UK government to address public concern about executive remuneration. The members of the committee are listed in Table 5, and the members represented some of the leading figures and interests in UK businesses at that time. The Greenbury committee was named after its chairman, Sir Richard Greenbury, who was then the executive chairman of Marks and Spencers plc.

| <u>Name</u> | <u>Organisation</u> |
|--|-------------------------------------|
| Sir Richard Greenbury | Chairman & CEO, Marks and Spencers. |
| Sir David Chapman | Partner, Wise Speke Stockbrokers |
| Sir Michael Angus (deceased) | Chairman, Boots/Whitbread |
| Sir Denys Henderson (* ³⁵) | Chairman, Rank Organisation |

³⁵ * - donates members either too ill or unwilling to participate in this research. D – Deceased member.

| | |
|------------------------|-----------------------|
| Mr Geoff Lindey | JP Morgan |
| Mr Tim Melville-Ross | Director general, IOD |
| Mr George Metcalfe (D) | Chairman & CEO, UMECO |
| Sir David Simon | Chairman, BP |
| Sir Iain Vallance | Chairman, BT |
| Mr Robert Walther | CEO, Clerical Medical |
| Sir David Lees | Chairman GKN |

Table 5: Organisations represented on the Greenbury committee

3.7.4 Advisors to the Greenbury committee

The principal role of the advisors to the committee was to offer ‘professional’ advice where appropriate. Of particular note was the role of Andrew Edwards, former director general at the UK treasury, who was responsible for drafting the text of the report from the outcome of the meetings. The professional advisors were supported by a secretary from KPMG called Matthew Lewis. His role was identified by Sir Richard Greenbury and Tim Melville-Ross, as being purely administrative. He administered the minutes of the meetings, which took place in Baker Street at Marks and Spenser Headquarters, and also administered the timetable of meetings. With this in mind it was felt it appropriate to omit him from the interview sample.

Donald Brydon, chairman of Royal Mail, was also interviewed. Mr Brydon was not an original member of the Greenbury committee. He was interviewed on the advice of another Greenbury member as having been influential at the time (he was chief executive of Barclays Bank PLC between 1994 and 1996) and noted as having strong ‘insider’ (a term assigned to him by one of the Greenbury committee members) knowledge of the relationship between government and industry in issue pertaining to corporate governance. It was therefore considered appropriate to take up the offer of a meeting with him and to include his interview data in the sample. This was an opportunity which was taken that was unplanned and one which makes a significant contribution to the data set, particularly in light of his involvement with the privatisation of Royal Mail and the subsequent controversy over the pay increase awarded to their CEO, Moya Greene (Plimmer 2015). Mr Brydon’s comments are noted in the findings chapters as a ‘Committee member xx’. Like all the other respondents, his comments are anonymised.

| | |
|-----------------------|--|
| Mr Andrew Edwards | Director general of the UK treasury |
| Mr John Grieves (*) | Freshfields (law firm) |
| Mr Peter Jeffcote (*) | Freshfields (law firm) |
| Mr Angus Maitland | Maitland PR (public relations consultants) |
| Mr John Carney | Towers Perrin (remuneration consultants) |

Table 6: Advisors to the Greenbury committee plus Donald Brydon

3.8 Research ethics

On the written advice of the Newcastle University Business School ethics coordinator, it was not considered necessary for this study to undertake full ethical approval in the Faculty of Humanities and Social Sciences (HASS) at Newcastle University. That said, there were a number of steps taken to ensure good ethical standards were maintained.

- All interviewees were informed before the interview took place what the research was about (via email). This was detailed in a letter, which was sent to them ahead of the interviews taking place.
- Interviewees were given an appropriate amount of time to consider the request for interview before making a commitment to meet. The time between first contact and the interview tended to be a matter of months, not weeks. Because the method of communication was by letter, there was no pressure to meet if inclined not to do so.
- At the time of the interview, express consent was sought and received verbally to use the conversations for the purpose of this thesis and any publications which may subsequently arise from it.
- All transcripts were anonymised during the production of this thesis in exchange for an undertaking that each interviewee would speak freely about the subject under discussion. This was accepted in each case.

The interviews were recorded using a digital voice recorder and subsequently securely stored on the servers at Newcastle University Business School. There were also field notes taken during the meetings, which were stored in a locked cabinet at Newcastle University.

3.9 Conclusion.

This chapter has discussed the debate relating to method. It has outlined the principal methodologies employed in the pursuit of the research objectives, laid out in the first chapter, and has uncovered some of the methodological issues which were encountered. It has also

sought to provide context and definition to some of the key metrics, which will be discussed in chapter's 4, 5, 6 and 7.

The important contribution this chapter makes to the thesis is the crucial link between the methods employed and the data generated. This study is particularly well suited to mixed-methods enquiry in that it employs methods which examine the social world with some degree of objectivity, but crucially it also employs complementary methods to explore the existence of relationships given in insider accounts.

Finally, this chapter explained the ontological positioning of the study. It was illustrated that an interpretivist approach allows exploration of ideas related to not only the literature employed, but also discourse (in chapter 4), capitals and fields (chapter 5), accountability and merit (chapter 6) and finally structure, power and institutionalism in chapter 7.

Chapter 4: From Cadbury to Kay: The evolution of governance in the UK

4.1 Introduction

This chapter is an important component of this thesis for two reasons. Firstly it documents the evolution of corporate governance texts (see Table 7) longitudinally. Secondly, in doing so, it introduces the idea of an evolving discourse of corporate governance represented through the texts produced since 1992.

At a first level, therefore, this chapter is about change. It profiles the extent to which corporate governance regulation has evolved over time and how that change was discussed.

Importantly, however, it is also about how texts (attempt to) depict and predict human behaviours in the arena of corporate governance. Furthermore, this chapter attempts to interrogate how ‘best practice’ is conceived of, and conveyed, over time. Using the defined canon of texts it documents the evolution of a number of key concepts and therefore lays the foundations for the discussions which take place in chapter 5-7.

The chapter is organised as follows. A review of the antecedents of what is conventionally thought of as contemporary corporate governance is undertaken. This is followed by an analysis of the most prominent corporate governance texts since 1992 in chronological order, starting with the Cadbury report. There is then a section that explains the prevailing corporate governance environment following the most recent revision of the UK code of corporate governance in 2010. The chapter then goes on to explain how corporate governance texts may be considered a collective and evolving discourse. The texts are examined using a modified form of discourse analysis using Nvivo software (details of which are in chapter 3) integrated with a more generalised hermeneutic interpretation. The results allow a discussion of the key patterns and drivers of change. A final section draws conclusions.

| | | |
|--|------|---|
| "The report of the committee of the financial aspects of corporate governance." The Cadbury Report. | 1992 | <ul style="list-style-type: none"> *Split the role of chairman and chief executive *Established committee structure *Voluntary approach to disclosure. Comply or explain preferred *Majority of independent non-executive directors *Non-executives to be selected by the whole board |
| "Directors remuneration." The Greenbury Report. | 1995 | <ul style="list-style-type: none"> *Remuneration committees should determine levels of pay *Pay should be closely linked to performance *Greater adoption of LTIPs *Publication of an annual remuneration committee report |
| "Committee on corporate governance." The Hampel Report | 1998 | <ul style="list-style-type: none"> *Provided a review of Cadbury and Greenbury *Produced a set of principles and a code of good corporate governance practice *Highlighted the danger of 'box ticking' in corporate governance *Board accountable for all aspects of risk management |
| UK corporate governance code. | 1998 | |
| The Higgs Report. | 2003 | <ul style="list-style-type: none"> *Reviewed the role and effectiveness of non-executive directors and of the audit committee *at least half the members of the board should be non-executive *A definition of independence to be proposed *A senior independent director should be identified who meets the test of independence set out in the Review. The senior independent director should be available to shareholders |
| UK corporate governance code (revised). | 2006 | |
| "A review of corporate governance in UK banks and other financial industry entities." The Walker Report. | 2009 | <ul style="list-style-type: none"> *Review of corporate governance of UK banks and other financial institutions *Significant deferred element in bonus schemes for all high-paid executives *Remuneration committees to scrutinise company-wide pay and staff not on the board *Board level risk committees to be chaired by a non-executive *Increased public disclosure about pay of high-paid executives |
| "A regulatory response to the global banking crisis" - The Turner Review. | 2009 | <ul style="list-style-type: none"> *Changes in governance structure are required to increase the independence of risk management functions. *Consideration of the skill level and time commitment required for non-executive directors of to perform effective oversight of risks and provide challenge to executive strategies. |
| UK corporate governance code (revised). | 2010 | |
| "Guidance for board effectiveness." Financial reporting council (FRC). | 2011 | <ul style="list-style-type: none"> *Guidance note issued by FRC to assist companies in applying the principles of the code. *Relates primarily to section A and B of the code on leadership and effectiveness *Focus on the role and behaviors, not just structures and processes. |
| "The UK Stewardship Code." FRC. | 2012 | <ul style="list-style-type: none"> * Aimed to enhance the quality of engagement between asset managers and companies to help improve long-term returns to shareholders *Institutional Investors should publicly disclose their policy on how they will discharge their stewardship responsibilities *Institutional Investors should have a robust policy on managing conflicts of interest *Established clear guidelines on when and how they will escalate their activities *Institutional investors should have a clear policy on voting and disclosure of voting activity |
| "The Kay review of UK equity markets and long term decision making." The Kay Review. | 2012 | <ul style="list-style-type: none"> *Highlighted the need for relationships built on long term trust and confidence *There should be a much needed shift in the culture of the stock market *Improve the incentives and quality of engagement such as establishing an Investor Forum which targets better engagement *Realign incentives by better relating directors' remuneration to long-term sustainable business performance and better aligning asset managers' remuneration to the interests of their clients. |
| UK corporate governance code (revised). | 2012 | |

Table 7: Corporate governance texts 1992 – 2012 Source: Author.

4.2 The antecedents of contemporary corporate governance

Corporate governance initiatives in the UK arose directly as a result of events recent to their times. It is widely accepted, for example, that Cadbury and Greenbury were relatively rapid regulatory responses to perceived crises: Cadbury (1992) to the death of Robert Maxwell and public outrage over the theft of the Mirror Group pension value in the UK. The Greenbury Report (1995) was an explicit reaction to the publicity surrounding the pay of the then British Gas chief executive Cedric Brown in 1994. The response to these perceived crises in the UK has been a series of ‘best practice’ reports (Cadbury, 1992; Greenbury, 1995; Hampel, 1998; Turnbull, 1999; Higgs, 2003; Walker, 2009) enforced under listing rules. The UK code, incorporating and bringing together many of the provisions in these predecessor codes, was added to over time as regulators believed necessary, often based on the recommendation of these reports.

Although these reports invariably make constructive recommendations, none have fundamentally reformed the legal responsibilities of non-executives, the putative accountability through disclosure and the ‘comply or explain’ system, or the unitary structure of the board. Nor did they seek to question the fundamental status of the public company, or the way which governance practices are enshrined in law. There is an argument that they have endorsed similar market-based policies as their predecessor codes did. As this chapter seeks to discuss, changes in corporate governance seem to occur only as a response to perceived governance problems.

The first notable attempt at corporate governance reform came in 1977 in the form of ‘the report of the committee of inquiry on industrial democracy’, which was subsequently known as the *Bullock Report* after its chairman Lord Bullock. The report was delivered by the commission appointed by the Labour government into worker participation in corporate governance following the problems occasioned by industrial troubles of the 1970s, but also the European Commission's draft, the ‘fifth company law directive’³⁶.

The findings of the report were also never implemented but its recommendations are none the less worth re-stating as a result of some of the debates outlined in this research. The Bullock committee produced a majority recommendation that workers should have a place on the boards of businesses for whom they worked, this was, and still is, perceived as a radical extension of industrial democracy but it has never been meaningfully implemented. Having

³⁶ This was a draft directive proposed by the European Union (which Britain joined in 1973), which suggested greater worker participation in matters of corporate governance. It went three revisions but was never fully implemented by EU member states.

noted this, Bullock's recommendations are not too far removed from the governance arrangement enshrined in German law, where it is mandatory for workers to have representation on the 'supervisory' board of a business (Hopt & Leyens, 2004).

In the UK it is a matter for negotiation between the board and management as to how responsibilities are divided up in terms of how the company is run. As part of this process there is the inevitable struggle for power, resources, status and a range of other issues. In Germany however, the division of powers between the supervisory and management board are enshrined in the *Deutsche corporate governance kodex*, which although is analogous to the UK code, inasmuch as it is 'comply or explain', does mandate, by law³⁷, the division of responsibilities, which the UK does not. This makes the division of responsibilities and roles much more defined.

Bullock's report is important because had the report's recommendations been adopted then the next 25 years of corporate governance debates may have looked radically different. The fundamental opposition to Bullock's recommendations was simply framing the debate surrounding what the objectives of organisations are. Is profit maximisation purely the dominant goal or are there, or should there be, more nuanced and broad organisational objectives in line with the claims of trade unions and others (who broadly claim a more redistributionist agenda).

Thirty years on from Bullock, the environmental and ethical pressures have perhaps increased, but the struggle for worker representation is no longer substantively debated in the media nor by the policy-makers. The reasoning behind why the Bullock committee's provisions were never implemented are complex. The recommendations of the report were dismissed in part because of the failure of the committee to reach a unanimous conclusion (Hutton 1996), but also due to resistance from influential stakeholders in the process. In particular the 'city company law committee' (a powerful voice at the time) published, 'A reply to Bullock' (CCLC, 1977) in which the opposition to worker representation on boards was made clear. Essentially the 'reply to Bullock' stated that ultimate control over a company should rest solely with those that provide the capital.

³⁷ An English version of the German code of corporate governance can be found here: https://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/workinggroup4/2012-August-27-29/Responses_NVs_2012/20120504_Germany_English_3.pdf It highlights (on page 1) that the German board duality is defined in law.

“We believe that control to the concept of ‘industrial democracy’ is that involvement, for the majority of people centres on their own work in a company”
(CCLC, 1977: 3)

The CBI argued that employees could not be trusted with financially sensitive information or to, “behave moderately” (Hutton, 1996: 87). The argument the City company law committee essentially made, concerned the extent to which the owners of capital benefit from it and to what extent are there competing claims on resources under various favours of governance. This is a debate that needs to be renewed in light of the economic downturn occasioned by the bank ‘bailout’ in the later part of the last decade.

In the late 1980s and early 1990s there were a number of important precursors to the development of what is known today as the ‘UK corporate governance code’. There were a series of reactive measures to perceived scandals, which stimulated an intensification of focus on governance arrangements. The catalysts of the codes’ evolution are both implicitly and often explicitly identifiable. Of note, was the theft of £440 million from a pension fund by Robert Maxwell, which was concealed until his death in 1991. Maxwell was pledging shares in his company pension fund as collateral against borrowing, “despite the supposed independence” (Dine & Koutsais 2013: 202) of the pension fund. The press reaction to the scandal was damning, in an editorial *The Independent* said, “he was crook... a man unfit to run a public company... he had a reckless and unjustifiable optimism which enabled him on some occasions to disregard unpalatable facts and on others to state what he must have known to be untrue” (Whittam-Smith 1991: 25).

The Maxwell affair was not the only scandal of the time, there was the collapse of the Bank of credit and commerce international, also in 1991, as a result of widespread fraud and deception³⁸ (Maclean 1999). This fraud led to the Sandstorm report, which showed large scale deception, the concealing of information from auditors and the falsification of accounts over a number of years. In the wake of these scandals Sir Adrian Cadbury’s committee produced a report detailing what should be ‘best practice’ in terms of the responsibilities of the board and accounting systems. Commissioned by the FRC in May 1991, but published in 1992, the report is widely acknowledged as the first material contribution in establishing the tone of UK corporate governance. The UK shareholders association (UKSA) explicitly stated the

³⁸ Local authorities had been advised to use the bank by the government, when it collapsed, the Western Isles alone lost £50 million – See Maclean (1999) p91.

rationale for the formation of the Cadbury committee was a reaction to the scandals previously noted,

“There is almost universal agreement as to the progressive decline in the standards of UK corporate governance, indeed which is the reason for appointing your [The Cadbury] Committee. There is also widespread agreement that one factor contributing to this decline is the absence of effective ownership.” (UKSA 1992: 2).

What follows in the proceeding sections is a review of significant best practice reports, which have delineated and, to some extent, defined corporate governance in the UK starting with Cadbury report. These documents legitimise both the structure and processes of boards whilst highlighting the desirable behaviours of directors. This chapter will, to some extent, build on the work of Nordberg & McNulty (2013) in examining the extent to which the content of these documents institutionalises the processes and behaviours of boards.

These documents prescribe best practice in the boardroom, but many of the normative assumptions on which they base their recommendations have far from strong empirical evidence to support them. For example as was illustrated in chapter 2, the link between executive pay and organisational performance is contested in the literature, (for instance see: Jensen and Murphy, 1990; Wright, 1993; Ariely, Bracha & Meier, 2009) while the evidence relating to good governance³⁹ and company performance is also limited (Bhagat and Bolton, 2008).

The next section is not only meant to provide a critical review of the texts that have helped to shape the UK governance code, but also to provide an examination of the commuted use of language in them. As explained in chapter 3 of this thesis, they are characterised as a collective discourse pertaining to what is conceived of as corporate governance.

4.3 Corporate governance texts, 1992 - 2012

4.3.1 Cadbury (1992)

The publication of the Cadbury report in 1992 entitled ‘The financial aspects of corporate governance’, led to a number of far-reaching recommendations. Cadbury’s proposals were included in the UK code and, accordingly, contained a number of noteworthy provisions. In particular Cadbury provided that the same person cannot hold both the title of chief executive

³⁹ Good governance is defined by the authors as a composite of director independence, director ownership and various board composition variables such as gender, age and tenure. The extent to which these represent ‘good’ governance is open to critique.

and chairman simultaneously (provision 4.9 p21). Also the number of non-executive directors should be significant enough to impact on board decisions (provision 4.11 p22) and that a number of subcommittees should be established with specific remits (provision 4.21 p25).

Many of the report recommendations have been adopted not only in the UK, but also in a number of international governance codes of best practice. Its objective was principally to reinforce investor confidence rather than fundamentally reform governance structures or practices. Crucially, Cadbury was influential in establishing the ‘comply or explain’ approach, adopted in many principles-based jurisdictions around the world. Its contribution to what is commonly conceived of as corporate governance is profound, as Nordberg and McNulty (2013: 362) explain, “The legacy of the Cadbury report is how its language has come to define corporate governance”. More than that however, it set the precedent for how issues of corporate governance should be dealt with, that is, not through formal legislation, but a model of consultation leading to codes of best practice “the distinctive feature of the Cadbury Report was the low-key way that government was involved. The threat of legislation if the process failed was quasi-explicit and Cadbury alluded to it often” (Jones and Pollitt 2004:169).

Cadbury’s notion of a principles based system evolved into the Combined Code (1998), which consolidated the findings and recommendations of the reports which preceded it. The ‘comply or explain’ provision required that companies complied in detail with each provision of each code, or to explain to shareholders why the company was non-compliant. In this way, the shareholders collectively decided whether the explanation for non-compliance was adequate or not.

It is important to highlight that the code is not a *set of rules*, but merely *a set of principles and provisions*, but this does not mean that compliance is voluntary. The thinking behind this was that, theoretically at least, it would allow greater flexibility for business than a legislative approach thereby “retaining the essential spirit of enterprise” (Cadbury, 1992: 11). This was, and still is, seen as desirable in so much as “the range of situations in which it is applicable is much too great for it to attempt to mandate behaviour” (FRC, 2010: 2).

The implications of the Cadbury committees’ structure, processes and stages, were also important in the UK, were they were to be replicated over the next twenty years as the code was expanded and refined by subsequent reviews. Cadbury is considered an exemplary model for how to investigate issues in corporate governance and is recognised for its influence on the corporate governance structures (Jones and Pollitt, 2004)

4.3.2 Greenbury (1995)

The Greenbury report established a ‘study group’ on the initiative of the Confederation of British Industry (CBI) in response to concern from the public and shareholders about the remuneration of company directors in the UK. The group’s terms of reference were, “to identify good practice in determining directors’ remuneration and prepare a code of such practice for use by UK PLCs” (Greenbury 1995: 9). The report made a number of recommendations, but specifically, it highlighted the important role of institutional investors in using their power and influence to ensure implementation of best practice as laid out in the code.

The Greenbury report focused on the remunerative element of directors’ packages as opposed to addressing the wider issue of high pay within organisations. The recommendations generally focused, whilst being sensitive to the wider issues of executive remuneration, on executive directors’ pay and did not engage with the broader issue of high pay.

The report also recommended the greater adoption of LTIPs (long term incentive plans) as part of a remuneration package. The thinking behind this was to form greater alignment between the interests of shareholder and directors. These LTIPs were often formed by increasing share awards that mature at some point between 2 and 3 years or more. There was no statutory definition in the report of what ‘long term’ was considered to be.

One of the key recommendations of the Greenbury report was the recommended inclusion of remuneration committees into a company’s governance structure. The committees should be composed of at least 3 of the company’s non-executive directors. Additionally the committee responded to concern over excessive pay offs as a result of long term service contracts.

“Compensation payments to directors on loss of office have been a cause of public and shareholder concern in recent times. Criticism has been directed at the scale of some of the payment made and at their apparent lack of justification in terms of performance. Some payments have been described as ‘reward for failure’” (Greenbury, 1995: 45)

The committee stated therefore that remuneration committees henceforth should take what it called a “robust line” (Greenbury, 1995: 48) on payments where performance may have been unsatisfactory. The Greenbury committees’ provisions still form the foundations of executive remuneration decision making today. It is also worth pointing out that the terms of reference of the committee were not to reduce executive compensation *per se* but to ensure there was a greater link between pay and performance “link rewards to performance, by both company and individual” (Greenbury, 1995: 11), which is a contested relationship in the literature (see section 2.6.1).

4.3.3 Hampel (1998)

The Hampel committee was established to review the earlier recommendations of Cadbury and Greenbury. Their report strongly re-emphasised Cadbury’s view that good corporate governance was not based on the adherence to rules, but rather principles. In doing so its tenor was similar to the reports which preceded it. It highlighted the danger of a ‘box ticking’ approach to corporate governance that a rules-based system might encourage,

“Box ticking takes no account of the diversity of circumstances and experience among companies, and within the same company over time. It assumes, for example, that the roles of chairman and chief executive officer should never be combined; and that there is an ideal minimum number of non-executive directors,

and an ideal maximum notice period for an executive director. We do not think that there are universally valid answers on such points” (Hampel, 1998: 10).

Box ticking was also highlighted as an easy option in comparison to the, “diligent pursuit of corporate governance objectives,” (Hampel, 1998: 11). The report tenor tended towards a continuation of previous recommendations and systems focusing on continued flexibility for business. Its language strongly reinforced Cadburys thinking.

The principles-based approach undoubtedly allows for a range of circumstances to be adequately dealt with. Arguably, however, it also potentially allows directors the freedom to manipulate circumstances for personal or collective gain. In considering Hampel’s diversity argument, therefore, a key question arising is whether directors should be allowed the freedom to determine for themselves what constitutes good governance. Although there are countervailing provisions against this in the UK code of corporate governance, the freedom not to conform to the code remains on the basis an explanation can be given. More recently, the June 2010 FRC revision of the UK code similarly emphasised that more attention should be paid to the *spirit* of the code and not merely its letter. This will be examined in a later section of this chapter. Yet a code that allows for a degree of mandatory information disclosure, with the balance of disclosure subject to the directors’ opinion on the subject, may potentially lead to large variations not only in reporting but also in the style of reporting. Arguably, as will be discussed in chapter 6, the fundamental basis of the system of disclosure created by Cadbury, Greenbury and Hampel was the very root of subsequent corporates reduced accountability.

Hampel argued that, “business prosperity cannot be commanded” (Hampel, 1998: 17), implying that uniform rules or regulations do not deliver business success. The committee further suggested that accountability and prosperity are not mutually dependent. It emphasised that requirements for accountability should not be met at the expense of the long term success of the business. “The emphasis on accountability has tended to obscure a board’s first responsibility [which is] to enhance the prosperity of the business over time” (Hampel, 1998: 17). This idea proposed by Hampel was that ‘light touch’ regulation is beneficial in comparison to too much regulation (which may lead to lower levels of corporate performance). This is important because it has been embodied has in the UK code. Indeed, Hampel’s assumption that onerous accountability requirements can hamper the board’s primary responsibility towards performance, provides the focus of many of the criticisms that can be levelled at the UK code.

Finally, one of the main recommendations of the Hampel committee that has survived to the present UK code, is that the board should be held accountable for all aspects of risk management, not only financial risk and control as recommended by Cadbury. This, accordingly, elevated the legal and ethical status of the board's decision-making to some extent. Decisions about what may or may not be appropriate for corporate risk-taking, now lay in the hands of the board of directors, and this was to have profound implications over the subsequent decade.

4.3.4 Turnbull (1999)

Published originally in 1999 and revised in 2005, the report entitled, "Internal control: guidance for directors on the combined code," was more commonly referred to as, 'the Turnbull report'. Turnbull's primary aim was to provide guidance to listed companies on good business practice in the areas of risk management and internal control. Turnbull's impact on the combined code derives from its concerns that the board has an obligation to embed risk management and internal control into the running of the business, and the inclusion of an internal control statement in the annual report.

Turnbull is linked to listing rule disclosure requirements in so much as that companies not managing risk in accordance with Turnbull's guidance must 'comply or explain' why they have not done so. Turnbull does not provide for a comprehensive approach to managing and disclosing corporate risk, however as the presence of an internal control system does not equate to the offsetting of corporate risk. Following the guidance does not require disclosure of the magnitude of corporate risk, for example. Turnbull only states that risks must be presented to shareholders as the board considers necessary in the form of high-level information.

"The annual report and accounts should include such meaningful, high-level information as the board considers necessary to assist shareholders' understanding of the main features of the company's risk management processes and system of internal control, and should not give a misleading impression"
(Turnbull, 1999: 12).

4.3.5 The Higgs report (2003)

The Higgs report was primarily concerned with the role of non-executive directors (NEDs) and made a number of recommendations for revisions to the UK code. Although Derek Higgs strongly backed the 'comply or explain' system of its predecessor reports, there were a number of elements of the report that, he felt, eroded directorial discretion.

In provision A.3.4, Higgs attempted to clarify the meaning of director independence. This clarification was necessary because at that time, as many directors who identified themselves as ‘independent’ were in fact not free of other connections with the companies whose boards they were appointed to. As discussed in chapter 2, prior research indicates that the elite group who comprise the top echelons of the business world is relatively small, comprising an interrelated group of people (Maclean *et al.*, 2010). The corollary of this situation is that it is still possible to question what independence means when most NEDs are recruited from this elite group of top universities and, in some cases, the same public schools.

In terms of board composition, Higgs indicated that there should be a sufficient number of executives on the board as so not to concentrate power in the hands of one or two individuals.

“There is a greater risk of distortion or withholding of information, or lack of balance in the management contribution to the boardroom debate, when there is only one or a very small number of executive directors on the board. For this reason, I recommend that the Code provides that there should be a strong executive representation on the board (suggested Code provision A.3.2)” (Higgs, 2003: 33).

Higgs suggested that companies should take steps to avoid such a situation arising and also widen what he referred to as the ‘gene pool’, which we assume to be a covert reference to the oft-levelled criticism that many directors share similar educations, backgrounds and predilections. Associated with this, Higgs also suggested no one single executive should be on all three committees (i.e. remuneration, audit and risk) simultaneously. To some extent, this would only be possible with larger cohorts of non-executives on the board.

4.3.6 The Walker review (2009)

The Walker review examined corporate governance in UK banks and other financial institutions, and was undertaken on the instruction of the then prime minister, Gordon Brown. The “expected mode of implementation” (Walker 2009: 179) was based on “review of Combined Code and/or guidance FSA review of governance and approved persons” (Walker 2009: 179). In that respect it made a number of important contributions to the 2010 revision of the code. It recommended that the current best practice of remuneration committees determining policy for board level executives should be extended to cover organisation-wide remuneration policy. As will become apparent in the discussion in chapter 7, it was tacit acknowledgement that high pay was not solely an issue confined to executive directors.

“The best practice and other provisions currently in place require the remuneration committee to determine remuneration policy and packages only for board-level executives. This review proposes that the oversight role of the committee should be extended, where it is not already sufficiently wide, to cover firm-wide remuneration policy” (Walker, 2009: 108).

Walker went on to question the assumption that top-level executives receive the highest levels of remuneration amongst the organisation’s employees.

“In practice, there will be employees below board level in many BOFIs [banks or other financial institutions] who are both highly paid, in some cases with total remuneration packages in excess of those of board members and, closely associated, are likely to be in positions with potentially material influence on the direction and risk profile of the entity” (Walker, 2009: 109).

This led to Walker’s recommendation 29,

“The terms of reference of the remuneration committee should be extended to oversight of remuneration policy and outcomes in respect of all ‘high end’ employees... The proposed bands of disclosure above £1 million would be up to £2.5 million, between £2.5 million and £5 million and in bands of £5 million thereafter” (Walker, 2009: 111).

In response to Walker, the Government issued a consultation document in December 2011, which stated,

“The Government therefore proposes greater transparency of the reward structures for the eight most senior executives in an organisation, to permit greater scrutiny of the incentives for these individuals, and facilitate better oversight of the relationship between the capacity of senior executives to make decisions that impact on their firm’s risk profile, and their remuneration” (HM Treasury, 2011: 5).

The executives subject to scrutiny were to consist of the eight most highly paid individuals, whether or not they were members of the board. Walker therefore addressed the issue of high remuneration below board level, presumably in the interests of greater transparency for shareholders.

A key point to recognise is that government consultation was focused only on UK banks - specifically Barclays, HSBC, Lloyd's and RBS, and, in the context of lending, Santander. It is acknowledged that governance in the banking sector may be argued to be a special case, for example because banking risks can potentially impact on the public's financial security and therefore represent a potential liability to taxpayers. It is notable, however, that government consultation did not extend to further large financial (or other) institutions where payment structures may incentivise poor practice or excessive risk taking.

Whilst Walker focussed specifically on the banking industry, its implications for high levels of pay and the disclosure thereof can be argued to have relevance across the wider economy. Conversely, an objection to the increased disclosure requirements highlighted by Walker, is that in the absence of comparable disclosure requirements internationally, a potential for unintended consequence is, "driving talented senior individuals either to other centres or other financial service activities not subject to such disclosure requirements" (Walker, 2009: 110). Further, the result might be, "a ratcheting effect on remuneration to which it could give rise, as UK banks sought to resist any potential haemorrhage or senior talent" (Walker, 2009: 112). These points are relevant in reference to the discussions that take place in subsequent chapters particularly with reference to talent (section 6.8) and board structure (section 7.2).

4.3.7 The Turner review (2009)

The Turner review was published in March 2009 as a result of a request by government to examine the causes of the global financial crisis and in particular ensure the stability of the banking system in the UK in future. Whilst the remit was wider than issues of governance, the review, however, reported on remuneration in the sector, finding that, "[t]here is a strong *prima facie* case that inappropriate incentive structures played a role in encouraging behaviour which contributed to the financial crisis" (Turner, 2009: 80). The report went on to argue that, in future, remuneration methods must be consistent with effective risk management. The key implication for governance from Turner, therefore, was that the remuneration committee must not only align remuneration with performance, but also with risk. Risk management henceforth should play a greater role in the corporate governance framework.

4.3.8 The Kay review (2012)

In June 2011 the secretary of state for business, Vince Cable asked the economist, Professor John Kay to chair a review into UK equity markets and their impact on the long-term performance and governance of UK quoted companies. This review became subsequently known as 'the Kay review' and was published in full in the summer of 2012.

The Kay report identified that short-termism was negatively affecting the long-term performance of British business, which in turn had led to under-investment. Kay appeared to question the very foundation of policy generation. “We question the exaggerated faith which market commentators place in the efficient market hypothesis, arguing that the theory represents a poor basis for either regulation or investment” (Kay, 2012: 10).

In line with the research from the Bank of England, the report found that the structure of UK shareholding had changed, with increased fragmentation and foreign ownership (Haldane, 2010), trends that have affected shareholder control of the business. Kay also highlighted increases in intermediation in equity investment and declining trust and confidence in the investment chain. “The growth of intermediation has led to increased costs for investors, an increased potential for misaligned incentives and a tendency to view market effectiveness through the eyes of intermediaries rather than companies or end investors” (Kay, 2012: 10).

The review concluded with ten principles and seventeen recommendations. As of January 2014, update this none of the reforms indicated in Kay’s seventeen recommendations Kay outlined in July 20, have been implemented.

Chapter 11 of the Kay report focussed on incentives structures, concluding that bonuses (as recommended by Greenbury) should be, “closely related to the agent performance in determining long term value and the ability to realise the value of the bonus should be related to the realisation of that long term value” (Kay, 2012: 77). Key questions arising from this recommendation would seem to include issues of how close the relationship between bonuses paid and company performance should be. Further, what constitutes the long term, and, indeed, whether executive pay should continue to be composed in large part from bonus payments related to company performance? Kay noted,

“We might ask why it is necessarily appropriate to pay bonuses to the directors of large companies at all. Many people doing responsible and demanding jobs – cabinet ministers, judges, surgeons, research scientists – do not receive bonuses, and would be insulted by the suggestion that the prospects of bonuses would encourage them to perform their duty more contentiously” (Kay, 2012: 77).

Greenbury suggested in provision 4.17, that the remuneration committee may need to draw on outside advice to combine, “quality and judgement with independence” (Greenbury, 1995: 25). Kay highlighted the increasing use of consultants, a practice which is not widely reported by companies or recognised in the academic literature, whose interests may be conflicted.

“Remuneration consultants provide information about the practice of other companies, and their business growth depends on being hired by other companies. The interests of remuneration consultants are more closely aligned with the interests of the members of the boards who select them than the interests of shareholders” (Kay, 2012: 78).

This thesis concludes that consulting companies may not satisfy Greenbury’s recommendation that remuneration committees consult independent advisors, and the role of consultants and the impact of their recommendations may require further investigation.

4.3.9 The 2010 FRC revision of the code

Following the financial crisis of 2008, the June 2010 revision drew two principle conclusions. Firstly, “more attention needed to be paid to the spirit of the code as well as its letter” (FRC, 2010: 2) and secondly, “the impact of shareholders in monitoring the code could and should be enhanced by better interaction between the boards of listed companies and their shareholders” (FRC, 2010: 2). The specific apparatus relating to how this might be possible were not outlined, although it is notable in this context that the code’s rules based ‘comply or explain’ ethos, was not subjected to fundamental review.

Following on from the Walker review of 2009, Andrew Tyrie, chairman of the treasury select committee wrote to Hector Sants, the then head of the financial services authority (FSA) to highlight the issue of executive remuneration outlined in the Walker report. The key concern of the select committee was to ensure remuneration structures are aligned with the interests of shareholders. The supposition was an unregulated disconnect between remuneration structures and practices and shareholder interests, in some areas of business⁴⁰.

As part of the Project Merlin agreement announced on the 9th of February 2011, the major UK banks agreed to disclose the remuneration details of the five highest paid senior executive officers below the level of executive director. Although these disclosures increase transparency, however, it is argued that these limited arrangements were unlikely to provide a representative profile of remunerative practices. The report did not address the total amount of bonuses awarded to all senior staff, although banks conceded that the overall figure paid out in bonuses, would be smaller than in previous years. It seems noteworthy, also, that the banks would not tell the treasury select committee how many of their staff were paid more than one million pounds in 2010. These negotiations and agreements seem to hint at a cat and

⁴⁰ See: <http://www.parliament.uk/documents/commons-committees/treasury/110131-LetterfromChtofFSA.pdf>

mouse relationship between regulators and organisations in matters pertaining to remuneration. Certainly not in the *spirit* which was often referenced in the texts.

It can also be noted that while there was agreement that pay should be more explicitly linked to performance, there was no undertaking to cap or regulate rewards structures.

“Variable compensation will be explicitly linked to performance. For all senior staff, a significant proportion of any bonuses paid will be deferred into shares and be subject to significant vesting periods.” (HM Treasury, 2011: 4).

The argument might follow that explicitly linking pay and performance could increase risk-taking. Conversely, the deferring of bonuses, if practiced within clearly defined circumstances, provides a means of mitigating against such risk. A further argument is that disclosing remuneration details of highly paid employees would serve to increase the competitive positions of these individuals, leading to further competition and higher executive salaries. The question therefore arises as to whether banks (or other businesses) might benefit from having fewer executives on the board? These questions are revisited in subsequent chapters.

4.3.10 The high pay commission 2011

The high pay commission ran for a year and published its final report in 2011, made 12 recommendations for inclusion into the UK combined code. The 6th recommendation was that, “all publically listed companies should provide a distribution statement” (HPC, 2012: 11). This means that publication of staff income over the previous three years including total remuneration for executives as well as other senior managers, should be a requirement of the code. The commission also recommended greater transparency about the use of remuneration consultants.

“The High Pay Commission has found that, despite codes of conduct, remuneration consultants are found to cross sell services to companies, giving them a direct conflict of interest. This may be having an inflationary effect on pay. We therefore recommend, in the first instance, that companies publish the extent and nature of all the services provided by remuneration consultants, acknowledging this is only the first step if cross selling is seen to continue” (HPC, 2012: 15).

Additionally, the investigation found weaknesses in remuneration committees’ use of consultants and indicated this had led to a ratcheting up of executive salaries.

4.4 Analysis and dominant themes in the codes

The purpose of the final two sections of this chapter is to examine how the discourse of corporate governance has evolved and in doing so addressed RQ1. The methodology employed to analysis the texts was described and justified in section 3.5. What follows is an analysis of the themes which emanated from the data grouped under two key headings; structures and behaviours. A sub set of structure is the evolution of what is considered to be independence and therefore because of its prominence is individually discussed. A sub set of behaviour is found to be issues relations to morality, ethics and good conduct which are addressed in a similar manner. Therefore this final section attempts to summarise thematically the previously described canon of texts and therefore examine how their language has evolved [if indeed it has] over time.

4.4.1 Structures

One of the dominant themes of these texts is the use of architectural and infrastructural metaphors such as references to *robustness*, *frameworks*, and other allusions to aspects of construction. This is clear and overt example of Higgs (2003) began by reporting, for example, that, “effective and robust boards are an essential feature of successful companies” (Higgs, 2003: 11) whilst the stewardship code published by the financial reporting council (FRC, 2012b) said that compliant businesses must, “have a robust policy on managing conflicts of interest in relation to stewardship” (FRC, 2012b: 5, emphasis added). Likewise, Cadbury (1992) stated that, “the effectiveness of a board is buttressed by its structures and procedures” (Cadbury, 1992: 25, emphasis added). Other references illustrate a frequent employment of architectural phrases, words and metaphors. For instance, the word ‘framework’ is employed frequently in Cadbury, Grrebury and Higgs reports in relating to issues of regulation and agency. Cadbury (1992: 11), for example, stated that, “they [the directors] must be free to drive their organisation forward, but exercise that freedom within a *framework* of effective accountability”, and later in relation to the work of auditors, the provisions continued to discuss, “the *framework* in which auditors operate” (p36). Nordberg and McNulty (2013) concurred with these observations inasmuch as they highlighted the existence of form and design in the Cadbury report, referring to its “quiet symbolism” (Nordberg & McNulty, 2013: 359).

Independence

The earlier texts in the 1990s showed a clear emphasis on the implementation of structural changes in the regulation of corporate governance. The change over time is nuanced,

however, and it should not be assumed that there was a binary switch at a given point in time. Although the publication of the Higgs report in 2003 was possibly the beginning of the change in emphasis towards more behavioural issues which will be discussed in the next section.

In reinforcing the early emphasis on structures as essential underpinnings of sound corporate governance, Cadbury stated that independence, both in terms of independence of judgement and structural independence are central and crucial preconditions. Throughout the period since Cadbury, the meaning of the term ‘independence’ has been included in all of the codes as an important precondition of good governance. In a nuanced statement, Cadbury specified that, “we recommend the majority of non-executives on the board should be independent of the company” (Cadbury, 1992: 19), a phrase repeated on page 22 of the code. In this regard, Cadbury was seemingly employing ‘independence’ in a mechanistic way: independence can be facilitated by having no previous connection with the company upon whose board the non-executive sits. In later texts and indeed throughout the UK code and its subsequent revisions, there are similar uses of words in describing tangible structures. In a similar way, the Greenbury report (1995) also made reference to structures in the context of remuneration committees. The emphasis was on the structural arrangements for ensuring independence in order to facilitate un-captured and unbiased decisions on executive remuneration. A rule for the newly instituted remuneration committees was that they “should consist exclusively of non-executive directors,” (Greenbury, 1995: 14) and that independence was understood in terms of being, “independent members not associated with the board or management” (p 23). The meaning of the term, “not associated” is ambiguous but, in the context of the general tenor of the code (establishing committee structures), is likely to refer, in common with the Cadbury definition, to having no previous direct association with the board.

Kay (2012) critically employed the word ‘framework’ to convey structure, which implies an agency relationship whose existence is taken for granted. “The issue that concerns us is... whether the messages that managers and shareholders convey to each other, at meetings and through the share price, provide a framework within which companies and their boards can make balanced assessments of the measures needed to promote the success of the company in the long-run,” (Kay, 2012: 20). The implication of Kay’s comment here is that it is difficult, solely through the use of structural injunctions, to “make a balanced assessment” as is necessary.

The Hampel report in 1998, likewise, referred to the necessity that, “a majority of... [non-executive directors should be] independent and seen to be independent” (Hampel, 1998: 17) going on (in s.6.3) to specify that independence was understood as being, “independent of management” (Hampel, 1998: 25). The importance of being ‘seen to be’ independent suggests an emphasis on that which can be observed by outsiders (typically shareholders) and this, in turn, would favour a structural and hence verifiable form of independence. The Hampel code also included a requirement to disclose the extent to which non-executives are materially independent (in section 3.9) with the observation that these claims can be challenged by shareholders if felt necessary.

By the time of the Higgs review in 2003, a richer conception of independence was in evidence. It included an emphasis on, “independence of mind” (Higgs, 2003:36) and, “independent in character and judgement,” (Higgs, 2003: 37). Independence was also discussed in terms of the quality of, “relationships or circumstances that would affect the director’s objectivity,” (Higgs, 2003: 36). In each case, Higgs appeared to conceive of independence in terms of the character of the director, perhaps believing that structural independence as conceived of in the earlier codes was inadequately described or circumscribed. Higgs continued that the purposes of independence was so that, “all directors [might always] take decisions objectively in the interests of the company” (Higgs, 2003: 81).

The Walker review of 2009, similarly, discussed independence in terms of it being derived from, “a combination of financial industry experience and independence of mind will be much more relevant than a combination of less experience and formal independence,” (Walker, 2009: 4). The term, “independence of mind” evidently referred to a behavioural interpretation of independence and this is the commonest use of the term in the later codes. The revised UK code of corporate governance in 2012 specified that, “the board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director’s judgement....” (FRC, 2012a: 11). The understanding of independence in terms of ‘character’, ‘judgement’ and ‘relationships’ represents a marked departure from the structural understanding of independence in the 1990s.

4.4.2 Behaviours

The contrast over time in the emphases placed upon aspects of directors’ behaviour is marked, with a different dominant discourse evident in the general tone and tenor between the earlier

and later texts. The early texts (Cadbury, Grenbury and Hampel) are notable in their stressing of structures, procedures and committees in the underpinning of corporate governance with no direct reference to behaviours. That is not to say that behaviours were not identified as important, but the focus in these codes tended to focus on ‘integrity’; the idea of behaviour is therefore encapsulated within structural frameworks, for example.

“Integrity means both straightforward dealing and completeness. What is required of financial reporting is that it should be honest and that it should present a balanced picture of the state of the company’s affairs... The integrity of reports depends on the integrity of those who prepare and present them”

(Cadbury, 1992: 16).

Therefore it was more about ‘playing by the rules’ as opposed to making individual moral choices which question those rules in any way. The latest of the texts analysed, the 2012 Kay review, noted that (after the 2007/8 banking crisis), “the erosion of trust and respect,” was a key failure of corporate behaviour (Kay, 2012: 45), whilst insightfully noting that, “trust and respect cannot be established by regulation” (Kay, 2012: 47). His review noted the importance of, “appropriate standards of behaviour” (Kay, 2012: 45) and of observing, “prevailing standards of decent behaviour,” (Kay, 2012: 12).

As with discussions of independence, the Higgs Review of 2003 may have been the beginning of the realisation of the limitations of structures and an increased emphasis on the character, trust and behaviour of directors in underpinning sound corporate governance. He noted that, corporate “architecture in itself does not deliver good outcomes” (Higgs, 2003:11), whilst focussing on, “behaviours and relationships,” (Higgs, 2003: 4) stressing of the types of suitable, “behaviours necessary for their success” (Higgs, 2003: 12).

The 2012 revision to the UK code of corporate governance, professed itself to be, “of necessity limited to being a guide only in general terms to principles, structure and processes. It cannot guarantee effective board behaviour,” (FRC, 2012b: 2). A year earlier, the financial reporting council’s report of 2011 was, typical of the end of the period under analysis, admonishing and salutary in its counsel. It began by stating its belief that, “boards need to think deeply about the way in which they carry out their role and the behaviours that they display, not just about the structures and processes that they put in place,” (FRC, 2011a:1). It continued to argue the importance of, “its culture, its values and the behaviours it wishes to promote,” (FRC, 2011a:2), along with, “the highest standards of integrity and probity, [with] clear expectations concerning the company’s culture, values and behaviours,” (FRC, 2011a:

2), whilst, “instilling the appropriate culture,” (FRC, 2011a: 6). The example of the board’s behaviour is important, *inter alia*, because, “the executive team [has] primary responsibility for setting an example to the company’s employees, and communicating to them the expectations of the board in relation to the company’s culture, values and behaviours,” (FRC, 2011a: 5).

Values, ethics and spirit

One of the key themes which emanated from the texts towards the end of the period [particularly in the Turner and Kay reports] were references to the moral and ethical obligations of executives. The idea that responsible behaviour is owed by one constituency towards another echoes the notion of *noblesse oblige*⁴¹, that the people who govern organisations have a duty of care to ensure that not only do they adhere to the rules but in doing so they conform to a deeper moral and ethical set of values. Bourdieu & Wacquant (1998: 122) explained the phenomenon as, “one must be noble to act noble, but one would cease to be noble if he did not act nobly”. This seeks to develop a conceptual system as an instrument of control whose legitimacy is based on an unspoken set of principles, a *spirit* which transcends the printed text. These principles are deeply embedded in the social and economic morality of the British population and also have their origins deeply historically embedded. It is believed, for example that, *doing the right thing* or *playing by the rules* reflects a quasi-Victorian morality handed down in part by the public schools (Bayley, 2008). It emphasises that playing by the *un-codified rules of the game* (Bayley, 2008) is important. This phrase is repeated in Kerr and Robinsons (2011) analysis of Scottish banking elites, they find “the habitus of a social agent is acquired (or inculcated) through class background and education” (Kerr & Robinson 2011: 155). The public school ethos demands adherence to rules, sportsmanship and fair play (James, 1994). These characteristics exemplified, “a Christian gentleman...who played by the rules, and whose highest aim was to serve others’ (James, 1994: 207). This idea of ‘spirit’ is referenced in the Cadbury report,

“They [directors] are responsible for ensuring that their actions meet the spirit of the Code and in interpreting it they should give precedence to substance over form” (Cadbury, 1992: 18).

⁴¹ A French phrase literal meaning the obligations of nobility.

Therefore the issue is that behaviour should reference some form of internal morality, whilst texts also reference the code itself as being based on these [often implicit] unspoken values. Kerr and Robinson (2012) identified that failure to behave in the spirit of the code and its associated values contributed to the downfall of RBS, in their analysis of Scottish banking elites. They illustrated how a culture of *noblesse oblige* based on quasi-Victorian values such as service, honour and prudence evolved from the ethos espoused at the public schools had been swept away, led by “insurgent modernizers” (p254) such as Scottish bank erstwhile chief executives, George Mathewson and Fred Goodwin, with unfortunate results not only for the bank but also for the UK’s fiscal position. A large scale study which supports these findings examined the reporting trends of 245 companies between 1998 and 2004 in terms of the quality of explanations based on their information content. It found, “a frequent use of standard and uninformative explanations when departing from best practice, which highlights a conformity with the letter but not the spirit of the code” (Arcot and Bruno, 2006: 1). This debate is central to whether a principles-based code leads to better governance and what the hypothetical [but oft cited] trade-off is between regulation and performance.

Throughout the evolution of the combined code, there are constant references to internal standards which directors must conform to, but by 2010 the FRC had identified a lack of an appropriate spirit in governance behaviours, saying that, “much more attention needs to be paid to the spirit of the Code as well as its letter,” (FRC, 2010: 2). This may be a reflection of the 2007/8 crisis, which noble behaviour amongst certain groups was hard to find, but moreover it points tacitly to the failure of the wider system of corporate governance, a failure of comply or explain and that of soft regulation. In 2011 the FRC went on to say that, “boards need to think deeply about the ways in which they carry out their role and behaviours that they display, not just about the structures and processes that they put in place” (FRC, 2011b: 2). The term ‘spirit’ appears in many of the texts and indeed was brought forward into the UK code⁴², but nowhere in the codes was it ever explicitly defined. The subtext is that all stakeholders must contextualise their actions based on a semi-spoken set of rules, which are somehow unquantifiable but nevertheless must underlie all executive actions and behaviours.

References to values, behaviours, probity, integrity and trust have been frequent in the discourse of corporate texts since 2007. The language used in the code has similarly evolved, with the language of structure and compliance used in 1998 being commuted into a discourse

⁴² The 2012 revision of the code states “company’s board and committees adhere to the spirit of the UK Corporate Governance Code” (p7)

more concerned with personal characteristics and actions, presaging a greater need for dialogue, conversation and discussion (Nordberg and McNulty, 2013). It would seem the ‘appropriate culture’ referenced by the FRC is one which behaves in the ‘spirit’ of the code.

4.5 Institutionalised evolution in corporate governance texts

Analysis of the evolution of the texts illustrates an example of a mutually constitutive institutionalised development between texts and institutions. Di Maggio & Powell’s (1983) characterisation of *memetic isomorphism* is relevant not only because it reflects how organisations interact with their environment, but also how longitudinally, the regulatory environment has transacted with the wider society and therefore, dialectically, its own trajectory of evolution. As explained previously in chapter 3, language is fundamental to institutionalisation (Phillips et al 2004) and it is through texts, amongst other linguistic processes, that definitions of reality are constituted (Berger & Luckman 1966).

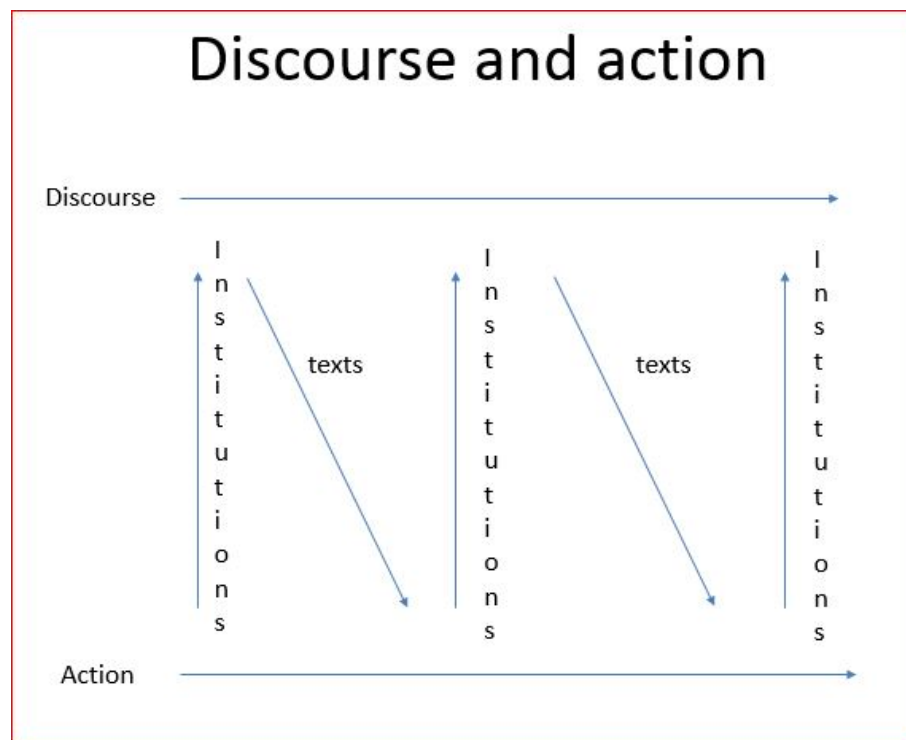


Figure 10: The relationship between action and discourse Source: adapted from Phillips et al (2004)

Analysis of the later codes emphasises that issues of trust⁴³, communication and engagement⁴⁴ were far more relevant than in the texts that preceded them. In particular, the Kay review focused on the relational behaviours of individuals in governance regimes, noting that, “trust

⁴³ See chapter 6 in Kay.

⁴⁴ See chapter 5 in Walker

and respect are key to the role of an honest steward,” (Kay, 2012: 44). As previously noted, these ideas of trust, respect and honesty are dominant themes in the texts that were published after the 2007/8 financial crisis, with those published earlier focussing more on structures and formal procedures⁴⁵. The concept of trust was first discussed in the 2012 revision of the UK corporate governance code (renamed from the combined code), saying, “certainly there is also scope for an increase in trust which could generate a virtuous upward spiral in attitudes to the Code and in its constructive use” (FRC, 2012b: 5). Both Kay and Turner noted that a deterioration of trust was one of the main effects following the governance problems during the financial crisis of 2007/8⁴⁶. From an institutional perspective therefore it is quite clear that actions directly influenced the production of texts that then contributed to discourse and institutional evolution (see Figure 10).

Many actions and events lead to the production of texts, but many texts are only analysed and interpreted by a handful of people. This may be increasingly true of company reports (section 7.7 unpacks this statement), but other texts are more widely disseminated in channels not limited to defined groups, such as for example, investors or bankers. In section 3.5, it was justified why the texts selected have been identified as a collective discourse in our analysis of corporate governance. From an institutional perspective the production of most of the texts are a reactive measure to some sort of institutional failure. So in such a sense institutions are transacting with their environment and making a contribution to the discourse, but more latterly that discourse constituted discussions of behaviours, trust and so forth as previously identified. They are therefore constitutive of the wider discourse, but also implicitly attempting to defend the discourse which preceded them, as Phillips *et al.* (2004: 642) explain “actions that lead actors try to gain, maintain, or repair legitimacy are likely to result in the production of texts... [which are] produced in order to establish, verify, or change the meaning associated with action”. This process is not arbitrary, powerful forces (for instance the commissioning organisations, politicians and unions) and vested interests contribute to the discourse and therefore constitute the texts, which tend to have a coercive and memetic (DiMaggio & Powell 1983) effect.

⁴⁵ The word ‘trust’ appears 91 times in the Kay (2012) whilst only appearing on 10 occasions in Higgs (2003) and on only a handful of occasions in Cadbury (1992).

⁴⁶ The Turner Review identified a lack of trust in accounting figures; “a lack of trust that published accounting figures captured the reality of emerging problems” p28.

Perhaps the most primitive illustration of the application of explicit power through the instrumental use of texts is suggested by Wodak (2001: 10) who said; “language is not powerful on its own – it gains power by the use powerful people make of it.” Therefore it is argued that the texts are an example of a transparent and explicit exercise of power, “dominance, discrimination, power and control as manifested in language” (Wodak, 2001: 2). So although the principle contribution of this chapter is in analysing the content of the texts and their evolution, it is also important to recognise the inseparability of what is conveyed and by whom, when analysing discourse embedded in collections of texts. This thread will be further developed in chapter 5 when examining the history of the Greenbury committee, how Sir Richard came to lead it, and the individual roles of the various actors who made a contribution.

4.6 Conclusion

In observing the commuted changes in emphasis over the twenty-year period under analysis, the texts built upon each other and, to some extent, reproduced one another. There is therefore clear evidence of *intertextuality* (Kriteva 1980, Allen 2011) in the cannon of texts. It is therefore clear that the authors of the corporate governance texts “did not just select words from a language system, they select plots generic features, aspects of character, images, ways or narrating, even phrases and sentences from previous literary texts and from the literary tradition” (Allen 2011: 11). This process has two components, it is literal in the respect of adopting similar *institutionalised vocabularies* but it also was less explicit in the way they *fostered the dominant ideological discourse*. In this regard, they both reflected, and became a component of, the continuous and ongoing debate surrounding the regulation of corporate governance.

Cadbury developed the original text on governance practices and thus established the boundaries, which relied initially on formal structures, particularly in respect to financial reporting and the structure of governance mechanisms. Subsequent early texts, notably Greenbury, generally reinforced these ideas with their similar use of reinforcing language and meaning, thereby cementing in continuity within the dominant discourse of structure. This is an example of what Maclean *et al.* (2014b: 543) call the “interpellative power of rhetorical narrative”. In much the same way it is an example of rhetorical history conferring legitimacy (Suddaby *et al.*, 2010) by ordering and structuring ideas to pursue coherent objectives.

In later years the dominant discourse became less concerned with formal structures and moved rather more towards a more behavioural conception of corporate governance, as

though ‘mere’ compliance with formal structures was now considered insufficient. It would seem, then, that appropriate behaviours cannot be assured without codification, but that codification, at least in the form Cadbury originally intended, is insufficient for assuring sound corporate governance.

The changed stress on behavior and the commuted emphasis on the character of directors may signal a changing redefinition of what it is to be a *responsible* director of a listed company. It is seemingly now insufficient to maintain a high level of compliance because those banks and financial companies that failed in 2007 and 2008 were largely compliant with the structural requirements of governance regulation. The emphasis has become focused on a director’s character, their integrity and probity, for example.

The definition of independence has also seemingly evolved. Independence of mind rather than mere structural independence is important, as structural independence does not necessarily guarantee material independence⁴⁷. The original Cadbury conception of independence was free from ties which could, “materially interfere with the exercise of their independent judgment” (Cadbury 1992: 22). But there has been a departure from this to a conception of independence as a thought process as opposed to a structural facet. The implication is that the assumptions that agency theorists make, inasmuch as they are able to moderate executive behavior through monitoring and incentives, are not valid in all circumstances and cannot ensure appropriate behaviors in all cases. Indeed the diversity in the fundamental differences in human nature mean the can be no perfect theory of agency (Jensen and Meckling, 1994).

The sort of character a director possesses has become more prominent, as conveyed by the later codes, than his or her ability to comply with the structural requirements of a governance code. This does not necessarily undermine the value of compliance, but it means that technical compliance is only the threshold requirement for effective governance. This also perhaps represents a subtle admission of the failure of regulation since 1992. In a changed zeitgeist since the early 1990s, the quality of a director’s character has become as important, or conceivably, more important, than structural compliance.

⁴⁷ Of “character and judgement” Higgs, D. (2003) *Review of the Role and Effectiveness of Non-Executive Directors*. London: DTI. Page 7.

Chapter 5 – The Greenbury committee in the field of power

5.1 Introduction

In this chapter the theoretical lens of Pierre Bourdieu is applied to examine how the ruling elite responded to the challenges presented by the executive remuneration scandals of the early 1990s. The chapter begins with an analysis of the antecedents of the Greenbury report, drawn in part from historical media archives. This, to some extent, places the report in its historical context, and helps to gain an understanding of the corporate and political landscapes of the time. Bourdieu's concepts of capital and fields are then applied, which provide a framework for analysing how the Greenbury committee was formed, and the subsequent conclusions they drew.

The substantive justification in applying Bourdieusian theory is outlined in section 2.7 and then again in section 3.3.1, but this is nevertheless restated, to explain why his concepts of *capital* and *fields* are so relevant. The important concepts of *power* and *habitus* (Bourdieu, 1984) are then discussed, before moving to explain why the Greenbury provisions had longstanding and profound implications not only for directors pay, but also the contribution they made to the wider debate concerning notions of merit, transparency and accountability. In building on the previous sections, the final section of this chapter then moves to theorise how the Greenbury report mediated the dispersion of capital[s] not only within proximal field[s], but its implications in a wider societal context.

5.2 Factors that led to the formation of the Greenbury committee

The early 1990s were, to some extent, a period of economic and social change. The Conservative governments led by Mrs Thatcher and Mr Major had been in power since 1979. Mrs Thatcher's strong belief in Hayekian ideology led to the privatisation of most public utilities by the earlier 1990s. As these national utilities became public companies, their management, who were formerly moderately paid public servants, now found themselves exposed to labour market forces which, in many cases, resulted in substantial pay increases. It has been recognised that privatisation in the late 1980s and early 1990s, "played a critical role in understanding the need for good corporate governance" (Maclean, 1999: 93).

In particular the executives in the formally public utilities benefited heavily from discretionary share option schemes. Of note was the case of former British Gas chief executive, Cedric Brown, dubbed by the left-leaning Independent newspaper at the time as, "the least popular man in Britain" (Ward 1995). The contemporary mood in the early 1990s was described as, "highly febrile" (Committee member 8) and that there was a "groundswell"

(Committee member 10) following the publication of a Sunday Times article in 1994 that described the increased pay awarded to Brown. The article highlighted that Brown's pay rose 75%, from £270,000 in 1993 to £475,000 in 1994. This increase meant his earnings increased to 47 times that of the average British Gas employee at the time (Ward, 1995). The Sunday Times summarised the mood of the era in calling it "the biggest shake up of executive pay in UK corporate history" (Lorenz, 1994).

Such a large increase following privatisation, came to symbolise the caricature of the corporate 'fat-cat' (Cope, 1996). The Independent summed up the public mood surrounding his pay in an article entitled, "Cedric Brown, Fat cat in the dog house" (Ward, 1995). It stated, "the tabloids are out to get him because of what he is prospering at a time when the economic certainties of the eighties have long been flushed down the avocado toilet suite" (Ward, 1995: 17). The principle reason for this controversy was that the newly privatised British Gas represented a public utility which had a virtual monopoly, which millions of people relied on. This increase in salary to £475,000 was tendentiously employed by the Labour party at the time for political advantage.

Stirring up the popular feeling of unfairness and resentment was the Guardian which, having obtained a private letter written by David Brooks, the managing director responsible for the British Gas retail division, led with the front page on the 15th of December 1994, saying '*British Gas orders big pay cuts.*' This article explained not only will workers have a reduction in their wages but there would be changes on other aspects of workers' packages, including a reduction of holiday and reduced entitlement on sick pay (Donovan, 1994). Many of the reports and articles criticised Cedric Brown, but had failed to point out that he was a one company man, having started forty-four years previously as an apprentice, before rising to obtain the chief executive role.

The British press reaction to these widespread concerns was negative, but, perhaps not wholly unexpected. Charkham (2008: 295) suggested that, "the media understandably have a preference for a good story built around individual people. Tales about personalities sell more papers than paragraphs about products." Following the decision in 1995 not to re-elect the board of directors at British gas, The Sun (the leading tabloid paper of the 1990s) led with the headline, "Snout you go", while the Daily Mirror had photographs of Brown and a pig side by side under the headline, "Which Cedric has his nose in the trough?" (Knott, 1995). In relation to the series of confrontations at British Gas, the Guardian spoke about the "huge and increasingly disruptive gulf emerging between the directors and the rest of the workforce,"

and the “injustice of combining cuts for the many with huge rises for a few” (Donovan and Cowe, 1994). The British Gas AGM of 1995 lasted 6 hours, was attended by over 4600 shareholders (Maclean 1999) and the Communication Workers’ Union (CWU) had a live pig shipped in to help them make their point⁴⁸ (Maitland, 2008).

Although the British Gas affair is often cited as a “watershed” (Maitland, 2008: 156) in the run up to the Greenbury report, it was not the first time that directors were perceived to have their *snouts in the trough*. Following the publication of BT’s annual report of 1991 it emerged that its executive chairman, Iain Vallance, a future member of the Greenbury committee, received a 43% pay increase in one financial year despite underlying profitability only increasing by a more modest 14% (British Telecom, 1991). Vallance’s remuneration was composed of a basic salary of £450,000 with a further £250,000 performance related bonus. There was widespread criticism at the time not only because of BT’s relatively modest profits growth, but also because of their monopoly status at that time. An article published in the Independent summarised the ill feeling towards Mr Vallance.

“Yesterday, he earned two pounds in the time it took us to take this photograph of him outside the Hawthorns, his Edwardian home in Dulwich, south east London. Figures could also be worked out for the time it took him to park his H registration Mercedes in the drive, or to say he would not comment on his 43% pay rise, taking his earnings to a pound a minute” (Oulton, 1991).

Vallance therefore became known as *the pound a minute man* as one of the committee members recollects,

“Of course a number of the people on the committee had their own problems... including Iain Vallance. He was the guy who had a pound a minute campaign against him at one time” (Committee member 9).

In an interview given to LBC radio, Mr Vallance defended his own package robustly,

“I do not see this as a bad example, I don’t see that the ‘catch up’ element which applies in my case applies elsewhere... I don’t see how having 30% of my pay determined by performance is a bad example and frankly I don’t see how giving 30% of my pay to charity, as I did last year, is a bad example either“ (Stayt, 1991).

⁴⁸ The obvious connotation was that the executives had their ‘snouts in the trough’.

The controversy dissipated somewhat, when it emerged that the entire £250,000 bonus had found its way to charities (Maitland, 2008).

As a result of popular disquiet against these packages awarded to former public servants, and with the 1997 general election looming, the Major government, under the aegis of the Confederation of British Industry (CBI), asked Sir Richard Greenbury, the long serving and experienced executive chairman of Marks and Spencer's, to form a committee to address the ephemeral problems of executive remuneration. The very fact that the government devolved responsibility to the CBI in commissioning the report, perhaps reflected the political situation at the time. The Conservatives had been in power since 1979 and the prospects for the 1997 election were not looking good for them⁴⁹. The party had a number of internal issues on Europe and the general approach to economic policy. Prime minister Major was under pressure to deliver success at the polls against a backdrop of internal and external unrest. It was therefore explicitly noted in the first line of the preface to the Greenbury report, that its aim was to, "respond to public and shareholder concerns about directors remuneration" (Greenbury, 1995: 7).

The extent to which the committee's formation was an overtly political response by the ruling elite is a theme that will be addressed throughout this chapter. Many of the committee's members noted the direct political influence exerted in the committee's formation, despite the CBI being the official commissioning organisation.

"Major was very worried about this [executive pay issues] and of course it might be helpful if we [The Greenbury committee] say something that helps." (Committee member 5).

The Greenbury committee was therefore established with the terms of reference to address the particular problem of director's remuneration. It was made clear that the Greenbury committee "operated independently of the CBI" (Greenbury, 1995: 9) and had official terms of reference to "prepare a code of practice for use by UK PLCs" (Greenbury, 1995: 7). However, from the interview evidence with the members of the committee, there was a sub-narrative of appeasement and political jostling by those in the field of power before a historically important general election. As one advisor to the committee explained,

"this [the remuneration issue] was a gift to the Labour opposition, two of whom were held up in the Labour headquarters in Milbank running the communications

⁴⁹ A Mori 'State of the Nation' survey from April 1995 showed Labour to have a 26% lead over the Conservatives. See: <https://www.ipsos-mori.com/researchpublications/researcharchive/2753/State-of-the-Nation-Survey-1995.aspx> [accessed 20/12/2014]

campaign against the Tories so Cedric Brown was a very useful club with which to beat the Tory Government” (Committee member 9).

Committee member 3 also corroborated his colleague sentiments,

“We were conscious of the political pressure... [Sir Michael] Angus in particular was well plugged into the Conservative party and Rick Greenbury [was also]”.

So the extent to which the Greenbury committee was largely a politically motivated project became clear. It seems that its inception was less to do with, “public and shareholder concerns” (Greenbury, 1995: 7) and more focused on the concerns of the Conservative party as one member commented,

“It [the Greenbury committee] was instigated by the Conservative party who were concerned at the bad reputation about pay that was developing, particularly in the private sector and that was a vote loser” (Committee member 1).

5.3 Capital in the Greenbury committee

The overarching pertinence of Bourdieu’s theory in the context of this research was described in section 2.7 and then methodologically in 3.3.1, however the subsequent short section provides additional support for the decision to harness these theoretical frames of reference. In particular this section draws on Bourdieu’s concepts of the *field of power* and his analysis of the *forms of capital* to provide a framework for analysing the executive remuneration issues of the early 1990s and the subsequent publication of the Greenbury report. Bourdieu viewed the field of power as, “a field of forces structurally determined by the state of relations of power among different forms of power or different forms of capital” (Bourdieu and Wacquant, 1998: 264). As will be discussed in the next section, it is proposed that the committee and its members operated within *the field of power*. In this field it can be theorised that the members harnessed the capital which they possessed to exert power over others, both inside and outside the field they operated in. The forms of capital are illustrated in Figure 11.

Each of the committee members possessed various varying quantities of Bourdieu’s (1986) four forms of capital: economic (wealth), cultural (knowledge tastes and dispositions), symbolic (titles, honours and reputation) and social (networks and relationships). A summary of the committee member’s backgrounds is illustrated in Table 9.

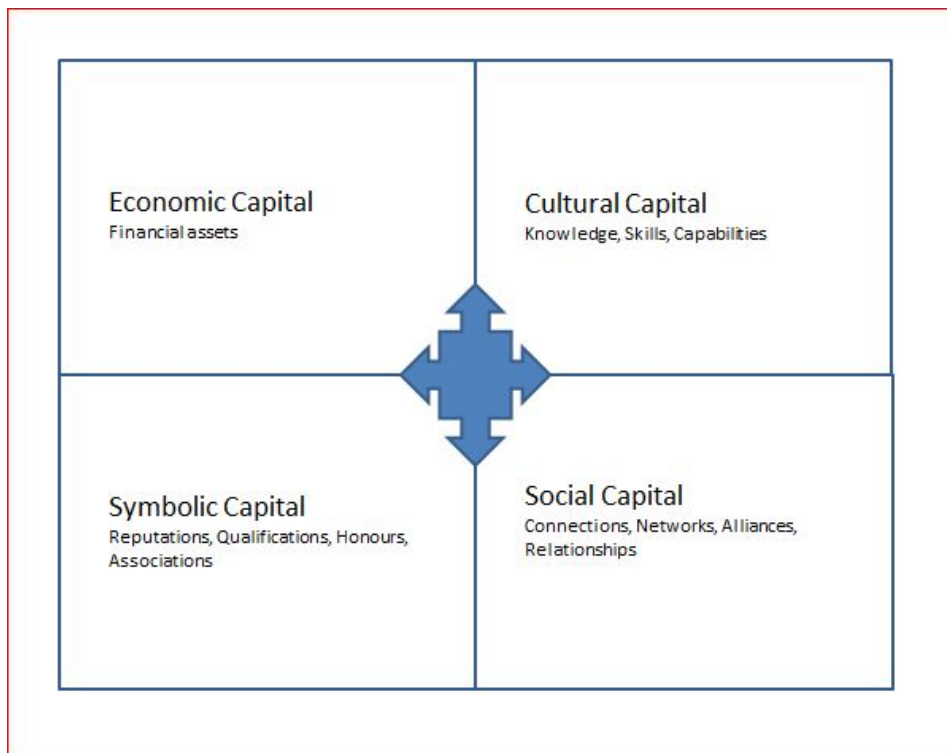


Figure 11: Bourdieu’s forms of capital. Adapted from Maclean *et al.* (2006)

In business, only a small number of people enjoy the distinction of elevation to the board of a top 100 company (Maclean *et al.*, 2006) and even fewer are invited onto a committee like the Greenbury committee, which arguably sits at the intersection of the ruling and corporate elite fields (see Figure 12). It can perhaps be suggested, that the Greenbury committee was constituted by individuals drawn from the very upper echelons of the corporate field of power. Although the corporate field of power is the principle field in which the Greenbury members acted, the field overlaps and nests in other fields which the members also may act in. This suggestion is grounded in Bourdieu’s field theory which was introduced in section 2.8.1. This will be elaborated upon as this chapter progresses.

As will be identified, Sir Richard had many of the features of one of the most *dominant agents* in the field of power. He held the posts of both CEO and chairman at Marks and Spencer at the time. Holding both positions simultaneously, as Maclean *et al.* (2010) noted, is a feature of the most dominant agents in the field of power. Additionally if we assume the definition of power given by Maclean *et al.* (2010: 238) as, “command over resources”, he also had strategic oversight of, what was then, the UK’s largest retailer. Therefore, Sir Richard was conceivably exercising leadership on behalf of the corporate class, whom he was representing (See Figure 12) and was in this position based on his strategic command of large resource. This assertion is supported by Cleggs view that “dominant people must be members of dominant organisations. Corporate domination signifies control of the economic field be a

relatively small number of powerful companies, themselves controlled by a relatively small number of dominant agents” (Clegg, Carter, Kornberger & Swietzer 2011: 228)

The formation of the committee was an example of how the big questions of the day were dealt with through dialogue and negotiation within the field of power (Bourdieu and Wacquant, 1998). In harvesting and then disseminating cultural capital, and with it, championing a cause centrally important to the wider public, Sir Richard was able to reinforce his credibility and that of the report, as Gordon, Harvey & Maclean. (2010: 7) noted, “together, possession of high levels of cultural, social and symbolic capital enables dominant economic actors to increase their influence and power to determine the outcomes of societal events.”

It wasn't just Sir Richard who was endowed with the various forms of capital; the members of the committee were rich in all of the forms of capital noted in Figure 11, nearly all of them had attended elite educational institutions, held directorships in the most prestigious and influential organisations, and cultivated extensive networks.

5.4 The Greenbury committee in the field of power

Table 8 shows the composition of the Greenbury committee (without its advisory members). Its constituents were the leading business people of the day, all of whom operated in the corporate field of power and all of whom had extensive networks in their fields. Bourdieu conceptualisation of fields as particularly useful in illustrating the position of the committee in the UK social order and the socio-political context in which it operated. There are a number of fields, which can be identified as forming a stratified social order (see Figure 22 located in chapter 7).

Figure 12 illustrates the theoretical social order. It suggests the existence of a *ruling elite*; these were the policy makers and politicians of the day, Tony Blair, John Major, Gordon Brown, Michael Heseltine and others. Then there was what can be identified as the ‘corporate elite’ who were prominent in the business world, represented by such figures as Tom McKillop of AstraZeneca, Richard Greenbury at Marks and Spencer, George Mathewson of RBS and Iain Vallance of BT. In line with Bourdieu’s theorising, the corporate field can be illustrated as ordered into various industries of which is composed, finance, manufacturing and retailing for example. It can then be sub divided again into the various hierarchies within those industries, etc. (see Figure 22 located in chapter 7). These sub categorisations are largely irrelevant except to illustrate the *principle of stratification* involved in the process of theorisation and also to illustrate the importance of the *principle of domination*. This is

relevant to the extent that the corporate elite is defined as those at the very top of their fields who hold dominant positions over those below them in the hierarchy. For example those at the very pinnacle of the corporate field held huge power over those below them in the hierarchy. Richard Greenbury for example, was both chairman and CEO of Marks and Spencer having worked at the company all of his career. Therefore it can be interpreted he not only possessed power in terms of command over resources (Maclean *et al.*, 2010), but also it would be a natural to suggest his symbolic (reputation and associations) and cultural capital (knowledge, skills and capabilities) were also substantial. This assertion is reinforced in section 5.5, when the committee's network and its creation are discussed.

Drawing on Maclean *et al.*'s (2006) conceptualisation of the field of power as a, "social space in which members of different elite groups freely mingle, recognised by one another as social and political equals" (Maclean *et al.*, 2006: 33), the field of power can be conceptualised it as a strata which comprises selected agents drawn from the ruling and corporate elite. In this interpretation of structure, the field of power can be seen to be a field, which is superior to the corporate field of power and constitutes the 'ruling elite'. It is a field were the issues of the day were debated and an example of an, "arena of struggle over value which refracts and transmutes external determinations and interests" (Calhoun and Wacquant, 2002: 6).



Figure 12: The Greenbury committee and the field of power. Source: Author

The positioning of the field of power generated is in keeping with Bourdieu's interpretation inasmuch as the field is the highest of all the fields combined, which requires something more than simply possessing a position in the upper echelons of society to enter it. Thus not all of those in the corporate field will necessarily operate in the field of power; but those that do, occupy the, "strategic command posts of the social structure" (Mills, 1953: 4). Therefore, their influence extends beyond the boundaries of their individual organisation into other fields where they gain access to relationships in the form of social capital. The fields are not static and agents may move in and out of the field of power as necessary. It is critical to note that the agents who constitute the 'ruling elite' are not necessarily operating the field of power at all times, in the same way those in the 'corporate elite' are not always resident in the field of power. Therefore this field is characterised by its dynamism and flux, one where actors ascend and descend in equal measure without permanent occupancy.

For instance, in Figure 13 there were a number of ties, which linked certain members together in the field of power. On the subject of his connection to Sir Richard one member said,

"No, but I didn't know him [Greenbury, but] I knew of him. You know what it is, the network... people know other people, but they're not necessarily friends. I was an acquaintance of his" (Committee member 11).

Such a relationship is an example of how social capital, in this case a person's network, is mobilised and transmuted into other forms of capital, which then facilitates movement between fields. This mobilisation was not self-determined. Incumbent actors within the field of power involved others, drawn from their networks. The implication is that the field of power, in the present example, acts a reproductive force as a result of the habitus of its constituents. Therefore Bourdieu (1986) suggested that these networks act as a, "multiplier" (Bourdieu, 1986: 246) of the capital the agent possesses in his own right. "The profits which accrue from membership in a group are the basis of the solidarity which makes them possible" (p246). There is a clearly observable trajectory of some of the Greenbury members as a result of the *transmutability* of capital from social to symbolic then finally to economic. The Greenbury committee can be theorised to have provided the vehicle for its members to sustain such a trajectory. The trajectory of Sir Iain Vallance is an example of how one form of capital can be commuted and then converted to another form of capital. Sir Iain attended Brasenose College at Oxford University, before obtaining an MSc at the London Business School. He then ascended the hierarchy in the corporate field holding various junior posts at BT before finally entering the corporate field of power as chief of operations in 1985. Following that, he

held various influential posts in the field of power, including in the CBI and FRC. He then transitioned to the political field where he served, as a member of the House of Lords, as the chairman of the influential economic affairs committee between 2008 and 2010⁵⁰. This illustrates the process of capital *transmutation* (Bourdieu 1979) where an agent has the ability to permeate the boundaries of various fields in and around the field of power by the application and acquisition of the various forms of capital(s).

However, in line with Bourdieu's thinking it must be stated that the transmutation of social capital is not necessarily a conscious process. Dominant agents do not form relationships with other dominant agents instrumentally through formal exchanges, but moreover by mutual interests, clubs or leisure pursuits which are tied to the doxa⁵¹. For example a member commented on his association with Sir Richard,

"We however were quite close friends because he was an avid football fan, as I am, and you know, you meet these people around on the circuit and we always had things to talk about" (Committee member 5).

Another member commented on how he came to be invited on to the Greenbury committee.

"I was chairman of the CBI economic affairs committee from 1988 to the middle of 1994. Greenbury himself was in and around the CBI so I suspect I was picked up from that" (Committee member 11).

Therefore this provides an understanding of how the network of the Greenbury committee operated and may partly explain how the ruling elite responded to the challenges faced by the difficulties outlined in the previous section of this chapter with regard to Cedric Brown.

5.5 The Greenbury network

As discussed in chapter 2, a lot of emphasis had been placed on the presence of cross directorships both within the academic literature and within the best practice reporting. However the networking behaviours of elites in the Greenbury network seems to paint a more complex, fragmented picture.

The construction of the committee was an example of what Granovetter (1973) called *the strength of weak ties*. The strength of a tie is characterised as the, "amount of time, the

⁵⁰ Source: Whos Who online.

⁵¹ The term 'doxa' was used by Bourdieu in his 1972 'Outline of a theory of practice', to describe what is taken for granted in a particular society. According to Bourdieu it is defined as "the experience by which "the natural and social world appears as self-evident" (p164)

emotional intensity, the intimacy and the reciprocal services” (Granovetter (1973: 1361). As is shown in Figure 13, none of the committee were closely connected to the extent they were close personal friends (this was communicated through the interviews), but rather, they were linked by organisations or clubs within the wider field of power. Through their membership of multiple boards and organisations, the committee nurtured an Inner circle (Useem, 1984). This web of relations is illustrated in the ways that members tended to be more informal than formal, sometimes characterised by the term, “old boys network” (Knoke, 2013: 100)⁵². Scott (2008: 34) corroborated the statements given to us by the members by suggesting it is the more informal weak links that matter most.

“As occupants of a purely formal category, the members of an elite need have few bonds of interaction or association, and may not exist as a cohesive and solidaristic social group. Such solidarity occurs only if social mobility, leisure time socializing, education, intermarriage, and other social relations are such that the members of an elite are tied together in regular and recurrent patterns of association” (Scott, 2008: 34).

Figure 13 is an indicative overview of the network of Greenbury committee. It illustrates that organisations such as the CBI, the European Round Table, various universities and mutual recreational interests, are examples of the associations in the field of power. This observation is congruous with other notable studies who have found that in the UK, relationships in the field of power are represented by more heterogeneous ties (or *bridging relationships*, (Stokes, Davoine, Oiry, Maclean and Harvey, 2014)) and are characterised by Maclean *et al.* (2006: 192) as, “loosely afflicted...some institutional and others ostensibly social in nature”. It is suggested that by activating ties between fields corporate elites can transcend institutional and organisational boundaries, and often connect with elites in disparate fields (O'Mahony and Bechky 2006, O'Mahony and Bechky 2008).

Congruently, there is a rich and well developed stream of work which suggests connections are made by actors between fields, tend to fill ‘structural holes’ (Burt 1992, Burt 1997) and thereby provide points of contact, between otherwise disparate actors. These structural holes are only filled when a need to fill them arrives, such as the case of the Greenbury committee (as illustrated in section 5.2). Given the observation noted above, that many of the committee members were only informally linked through business connections or societies, it was

⁵² It worthy of note than this term of reference may be particularly applicable given the lack of female participation on the committee and amongst its advisors.

evident that they did not overtly represent a cohesive solidaristic group. Nor did they have need of such overt solidarity as according to Bourdieu (1986) the network functions thus. “They do not need to ‘make the acquaintance’ of all their ‘acquaintances.’ They are known to more people than they know, and their world of sociability, when it is exerted is highly productive.” (Bourdieu, 1986: 248). Members of the committee had connections, not just with other agents in the corporate field of power, but with the ruling elite in the wider field of power, including among senior politicians. These observations support the view of Maclean *et al.* (2015b) that elites in the field of power are often ‘multi positional actors’, drawn from different segment of life worlds and they make common “issue based coalitions... to secure favourable legislative and resourcing decisions” (Maclean *et al.*, 2015b: 191). The ability to make acquaintances with those in the field of power constitutes an important form of social capital. One of the members commented that prominent politicians of the time formed part of his network.

| Member | Corporate Directorships in 1995 | University | Recreations |
|--------------------------------|---|------------------------------|-----------------------------|
| Sir Richard Greenbury | Marks and Spencer, Zeneca, Lloyds Bank | None | Tennis, Music |
| Sir Michael Angus | Unilever, British Airways, Halcrow Group, Natwest | Bristol | Countryside, Wine |
| Sir David Chapman Bt | Northern Rock, Brewin Dolphin | McGill University | Travel |
| Sir Denys Henderson | ICI, Barclays Bank, RTZ Corporation, Schlumberger Ltd, MORI | University of Aberdeen (MA) | Travel |
| Lord [Iain] Vallance | BT | Oxford (MSc) | Music |
| Sir David Lees | GKN, Courtaulds | Chartered Accountant | Opera, Golf, Music |
| Geoff Lindey | JP Morgan | Edinburgh University | Tennis |
| Robert Walther | Clerical Medical, JP Morgan | Oxford (MA) | Golf, Bridge, Sailing |
| Tim Melville-Ross CBE | Nationwide | University of Portsmouth | Tennis, Bridge, Countryside |
| Lord [David] Simon of Highbury | BP | Cambridge (MA), INSEAD (MBA) | Golf, Music, Football |
| George Metcalfe | UMECO, Sailport | Durham University | Sailing, Music, Gardening |

Table 8: The Greenbury committee (without advisory members)

“I knew John Major well. I liked him very much... I liked him, I got on well with him, but I also knew a lot of people like Michael Heseltine, Peter Walker, Geoffrey Howe to a lesser extent” (Committee member 1).

The proximity of Greenbury and the relationships between the corporate elite to the ruling political elite was commented on in relation to the formation of the committee and is an example of the almost symbiotic nature of the relationships between various agents in these groups.

“It was set up effectively by the government, who wanted first of all to kick this as a problem into the long grass [the issue of Cedric Brown’s rewards], because it was quite a nice thing to do to say ‘I’m not going to answer any questions on this because the committee is now sitting’ and once the committee had finished, I was not involved that heavily in the final outcome, Greenbury and his... almost political aides, were given a fair amount of staffing to work it though”
(Committee member 7).

This comment not only illustrates how embedded Sir Richard Greenbury was with the ruling elite, but also supports the accusation made earlier, that the report itself was partly politically constituted. The relationship between the ruling elite and the corporate elite is an example of the linking of elite groups to form an, “elite class network” who Zeitlin (1974: 1075) describes as “a new class of functionaries of capital, or a congeries of economic ‘elites’, in control of the new forms of productive property”. This class-based approach seems to have traction. The Maclean *et al.* (2010) study illustrates the increasing power, in terms of command over resources, by a decreasing number of elites, whilst Useem (1984) found that individuals drawn from the corporate elite who form network ties outside of their immediate industry are more likely represent their group in ‘societal wide’ processes such as the Greenbury committee.

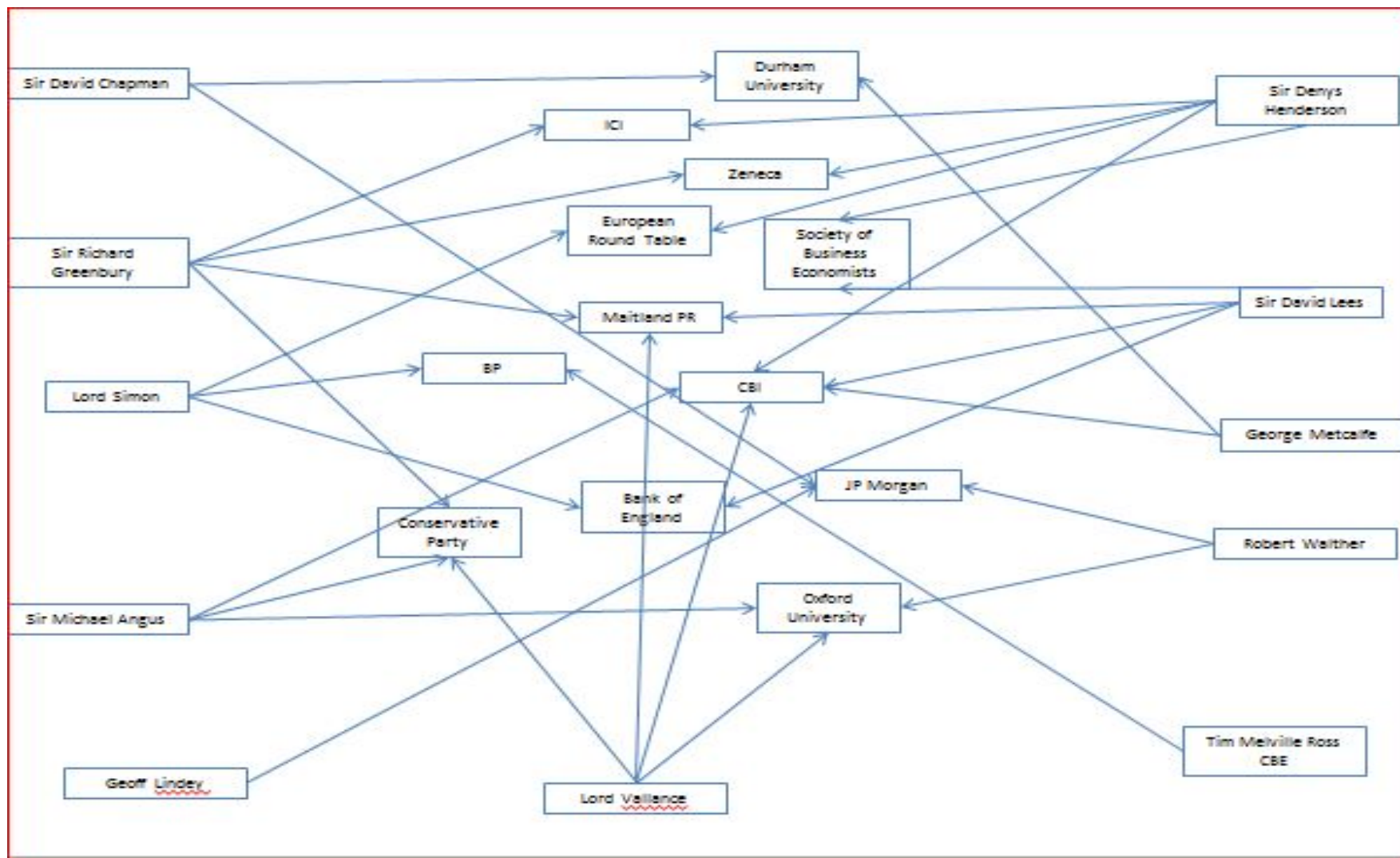


Figure 13: An indicative overview of the network of the Greenbury committee. Source: Author

Therefore the network serves to function both in business, and politically, to advance the interests of individuals and groups within it. Through this network the members of the Greenbury committee who operated in the field of power, were well positioned to harness their power to shape collective systems of meaning (Giddens, 2013). Therefore as will be discussed in the next section, the perception of the public was critical in establishing the legitimacy that elite groups seek to substantiate their narrative. This is important as, “sustained by public perception of their civic mindedness, they become the purveyors of legitimising narratives” (Maclean *et al.*, 2014a: 829).

Therefore what Greenbury and his colleagues were essentially doing was shaping collective systems of meaning. For example, the links between merit and remuneration, transparency and accountability, or pay and performance, are all powerful concepts (these are discussed in detail in chapter 6). The relationship between these concepts was championed by the Greenbury report and assumed as given. They were systems of meaning that the public, whose outrage was a key influence behind the formation of the committee, could relate to more broadly. The members were arguably engaged in a wider social fabric that captured the zeitgeist of the day, and, to some extent, they were a fitting remedy to the social and political unrest caused by the reward issues of the era.

5.6 The ‘party line’ – The requirement for legitimacy

Legitimacy was arguably central to the mission of Greenbury and his peers in the field of power. Maclean *et al.* (2006) recognised that legitimacy not only requires the approval of the dominated, but also that of their peers. “The right to rule, stems not simply from acceptance on the part of those lower down, but also the conferment of due recognition by those on par” (Maclean, *et al.*, 2006: 33). Drawing on this definition, it seems that recognition by those *on a par* (in the field of power) was less of an obstacle than the recognition required from those *lower down*. Therefore the requirement for legitimisation required from those not in the field of power meant the story had to be carefully crafted. This had been taken care of in terms of the choice of members of the committee and their backgrounds, but equally important, was the actual interaction with the press and public. It was this interaction, which was the role of the public relations business led by one of the advisor to the committee, Angus Maitland.

Mr Maitland’s company, ‘Maitland’, was employed on a pro-bono basis as public relations consultants to many of the members of the committee (for instance Sir Richard Greenbury was a key client at Marks and Spencer), and he played an important role in creating a story, in forming a discourse, which could be easily disseminated and understood. This was an exercise

in the application of power which must, “cloak itself, justify itself for being what it is – it must make itself be recognised as legitimate by fostering the misrecognition of the arbitrary that founds it” (Wacquant, 1993: 25). They therefore contributed to the legitimacy of the provisions enshrined in the report in the way they communicated the committee’s key messages and rebuffing any criticisms directed at it. Maitland’s role was described thus,

“I got a call from Iain Vallance asking if I would help the committee, protect its reputation and protect the reputation of Sir Richard and deal with the press... So my appointment was really to do with the reputation of the committee itself and the individual members of the committee. In particular to work closely with Rick to ensure he stuck to the party line” (Committee member 9).

Therefore, Maitland’s role was to ‘*protect*’ the reputation of those in the field of power and ensure Sir Richard adhered to the collective narrative or “*stuck to the party line*” (Committee Member 9). Maitland’s role can also be seen as defending the corporate class against those in the press and in society more widely, who sought to counter-say their objectives and challenge their power. Therefore the role of Maitland was to create and effectively disseminate a credible story whilst simultaneously rebuffing any challenges to the dominant agents and their collective narrative. Furthermore it was recognised that in order to quell the public fervour surrounding executive pay the ‘*reputation*’, or how the public perceive Sir Richard and others, had to be carefully managed as Maitland (2008: 157)⁵³ points out,

“if a [remuneration] crisis is anticipated and prepared for assiduously, more often than not it can be managed”.

This statement also indicates how those in the field of power are able to retain control over issues, which are important to them and their network. It also contributes to the evidence outlined in chapter 2 relating to the self-reproducing nature of power.

Key to the success of the Greenbury Report was the legitimacy it sought from, and conveyed to others, not only in the field of power, but to the stock exchange, with the business press, and to the public more generally. The success in producing a report whose provisions were later established in statute (the substantive provisions of the Greenbury code were eventually

⁵³ Angus Maitland was a member of the Greenbury committee, but he is also an author who publishes on matters relating to executive remuneration. See: Maitland, A. (2008) 'Reporting and explaining the deal communicating remuneration policy', in Arrowsmith, C. and McNeil, R. (eds.) Reward Governance for Senior Executives. London: Law Practitioner Series, Chapter 6.

included in UK statute under the provisions of The Large and Medium-sized Companies and Groups Regulations 2013⁵⁴) is an example of how power operates in decision making arenas.

The story of how Sir Richard Greenbury rose to become chairman and CEO of Marks and Spencer's was, and still is, central to the perceived legitimacy of the report's findings. After attending Ealing Grammar he joined Marks and Spencer in 1952 as a junior management trainee he eventually rose to become a director in 1970. Thereafter he became joint managing director in 1978, CEO in 1988 and chairman (jointly) in 1991. He personified what Kerr and Robinson (2011) called the, "bootstrap boys"⁵⁵, who... work their way up to the field of power" (Kerr and Robinson: 2011: 158). Greenbury's background, career trajectory and position gave him a certain perceived legitimacy. He was a man who had clearly illustrated he was in business for the long term, a one company man who was trusted to be the first non-family CEO of Marks and Spencer, which itself was, one of the UK's most valued brands. The symbolism of selecting the CEO and chairman of Marks and Spencer for this role should not be underestimated. As Mowbray (1995: 3) put it, Marks and Spencer's is, "the high-street incarnation of our values and aspirations... synonymous with service, organisation and trustworthiness". Furthermore Sir Richard was not only a patron of the Samaritans (1992 – 1997) at the time, but "knew John Major well and got on well with him" (Committee Member 1). He was ideally placed in the field of power to provide legitimacy for what was an extremely symbolic issue both in terms of governance and in the wider political field.

The symbolic nature of the committee and those who were to participate was of central importance to the legitimacy it coveted. The symbolism in being (officially) convened by the CBI and bringing together business leaders and head of bodies such as the association of British insurers (ABI) and national association of pension funds (NAPF) created institutional legitimacy for their report's provisions, regardless of their relative merit. In particular the symbolic capital that Greenbury held, was conferred by the ruling elite in the field of power allowing the acceptance of domination by the ostensibly subordinated (the public and shareholders). This was an important period for Sir Richard as he commuted the capital assimilated in his corporate role into a wider arena.

| | |
|-------------------------------|------|
| Male: female ratio | 11:0 |
| Schooling (independent/other) | 9:2 |

⁵⁴ See: <http://www.legislation.gov.uk/ukdsi/2013/9780111100318/schedule>

⁵⁵ 'Bootstrap boys' is a term associated with those who 'pulled themselves up by their bootstraps' from humble origins to improve their situation with limited assistance from other people.

| | |
|------------------------------------|------|
| University (elite/other) | 6:5 |
| Title or honour (yes/no) | 8:3 |
| Incumbent chief executive (yes/no) | 8:3 |
| Ethnicity (white/other) | 11:0 |

Table 9: Biographical summary of the Greenbury committee.

5.7 Power and habitus

The view of society that Bourdieu presented, in his analysis of French and Algerian society (Bourdieu, 1984; Bourdieu and Wacquant, 1998) can be re-interpreted in the context under examination. It is one where a stratified hierarchical field of power, forms a system which is self-regulating and self-reproducing, when decisions are formed independently of conscious decision, but of what Bourdieu (1984) referred to as ‘habitus’. Such habitus leads to patterns of common thought or, “classifiable practices which agents produce, and of the classificatory judgements they make of other agents practices” (Bourdieu, 1984: 169). It is, “both the generative principle of objectively classifiable judgements... and the system of classification” (Bourdieu, 1984: 170). In such a way, the committee’s composition is related to the judgements they made. In a Bourdieusian sense, habitus not only structures the decisions about merit, performance and fairness but it structures what is perceived of as “natural” (Bourdieu, 1984: 172) in the social world itself. The provisions in the Greenbury report very much reflected those enshrined in the earlier Cadbury report in so much they spoke of structures, committees and transparency (as discussed in chapter 4). This assimilation of concepts, constructs and ideology is not necessarily a conscious process. It is an invisible yet powerful force which structures the structures of the social and regulatory world.

In this way, the frame of reference was defined and the scope of the decision making would not undermine the legitimacy of the dominant power structure. This is what Bachrach and Baratz (1962) called the second hidden ‘face’ of power. Both the terms of reference and the composition of the committee were liable to induce a condition of, “non-decision making” where those, “status quo oriented persons and groups influence those community values” (Bachrach and Baratz, 1962: 952). Understanding how this form of power operates is important in understanding the Greenbury committee and their findings. It was an example of the harnessing of the second face of power which Maclean *et al.* (2010: 329) identified as a, “covert form of power.” It served to prevent the troublesome issue of executive remuneration from reaching the public decision making arena (parliament for instance) and is what Dahl

(1961: 124) called the, “hidden hand of the economic elite”. It was therefore evident that the existence of the committee was an attempt by those in the field of power to self-regulate rather than risk a wider, more public debate in other theatres.

“Greenbury is self-regulation, and I was aware that if Greenbury had not come out with his code, that the threat of a political intervention was very substantial. There is no doubt that there would have been political action, to do what Greenbury did and possibly a bit more” (Committee member 11).

However, there is a second, and perhaps more instrumental case to be presented. Bourdieu presented the concept of habitus as an unconscious, passive phenomenon. This therefore portrays the committee members as mere pawns in the rhythmic bureaucracy of regulatory administration. As previously identified, they occupied dominant positions in the field of power. This social order, or doxa (Bourdieu, 1972), is taken for granted, it, “appears natural” (Bourdieu, 1972: 164) and as such, was incapable of subversion.

However, this description may not provide a satisfactory explanation for the events. There is a potentially darker narrative that emerges from the interview data. The establishment of the committee can be presented as a conscious form of defence by those in the field of power who felt, as agents in the field of power, the issue may “run away” (Committee member 4) from them. By implication, it may escape or limit their control over the issues under review. From this perspective, the committee was arguably an example of the multiple positioning of actors in the field of power forming a coalition to sustain self-regulation in matters relating to remuneration. For instance, one member commented on the opinions of the ruling elite at the time.

“Heseltine wanted this set up because he saw this one running away... he saw this as a problem, he was DPM [deputy prime minister] at the time and we were coming up to the ‘97 election and I know from conversations with him and with Major... he was worried about losing the small business vote and that was exactly why Heseltine wanted Rick to do this. He wanted the Tories to come across as caring more about what was a very big issue as a result of Cedric [Brown] and various other things” (Committee member 4).

5.8 A ruling elite?

Research question (2) poses the question, ‘How and with what consequence did the ruling elite respond to the challenges presented by the executive remuneration scandals of the early 1990s?’ With this in mind it is surely relevant to examine the extent to which there was a

cohesive ruling elite at the time and indeed if that was the case, how they responded to challenges to their dominance.

An initial observation to make regard the composition of the committee is that on first glance the committee was constituted by white, male, CEO's (Table 9). The implications of the committee's homogeneity was, with hindsight, apparent to some of its members,

"You'd normally expect to see on that sort of committee a respected person from another walk of life, to offer a bit more of a layman's perspective and to give the impression of independence and maybe take a more rounded view" (Committee member 8).

Lord David Simon was the only member of the committee who represented (what may have been in the mid 1990s perceived of as) the left of centre, although ideologically he very much fell into the Blairite tradition, having been appointed by Tony Blair as minister for trade and competitiveness in Europe following the party's 1997 election victory. The only trade unionist to be invited onto the committee was John Monks who had turned down the invitation.

"The only person who refused the invitation to join the committee was John Monks who was with the TUC at the time. I don't know whether he thought it was going to be a whitewash?" (Committee member 1)

The observation that many of the committee were liable to be effected by its provisions, is a rather obvious criticism which may be levelled. As illustrated in Table 9, all of the members of the committee held active directorships in 1995. This point was elaborated by one of the members,

"Of course most of the people round the table were on the sort of packages that were being very heavily criticised so there was a degree of self-interest there, so maybe there was an unwillingness to go too far, but for the political imperative" (Committee member 4).

The reference about going 'too far' indicates that there were apparently boundaries which were themselves tied to the '*political imperative*' that was the impetus for action. Therefore the establishment of the Greenbury committee itself can be seen as an act of elitism in so much as it reflected an intervention by ruling elite to solve a problem that would directly affect their dominance and in particular, the extent to which they were able to harvest

(economic) capital. The existence of the committee in the first instance was at the behest of the ruling elite (as noted above) and it replicated the structure and format (and indeed language, as noted in chapter 4) of the successful Cadbury committee which preceded it.

The series of events surrounding the appointment of the committee and subsequent recommendations can be characterised as a form of class wide capital management in the respect it mediated the accumulation of dispersion of capitals in the field of power and its associated fields. The effective management of the forms of capital is after all central to maintaining the dominance of the elite body as Phillips *et al.* (2006: 353) point out,

“The resilience of elite corporate production and the consecutive self-perpetuation of corporate power struggles derive from the fabric and resilience of a community of power. It’s the social foundation and organisation of this community that provide the essential ingredients of its legitimacy”.

Therefore the response by the ruling elite, under the auspices of the CBI, was a clear example of how interlocks within the field of power, and the intervention of, “multi positional actors” (Maclean *et al.*, 2015b: 189), helped to perpetuate common, class wide, interests aimed to defeat the threat of statute. Bourdieu theorises that elite members in society tend to follow, “strategies of conservation” (Swatz 1997: 125), the success of which tends to mediate the development of the field. It is characterised by Bourdieu as a method which the dominant employ to counter [potential] subversion. Another member of the committee highlighted the anxiety felt by the ruling elite at the time concerning the issue of executive remuneration and the idea that something must be done to help,

“He [Sir Richard] said Major is very worried about this and of course it might be helpful if we say something that helps” (Committee member 5).

By triangulating the increases in executive remuneration since 1995, as illustrated in Figure 16 (located in chapter 6), with the observation that Greenbury represented a continued form of self-regulation, it can be suggested that this represented an example of how the ruling elite partnered with the corporate elite to perpetuate their own interests. Theoretically this can be characterised as *closure* which can be defined as *a particular class of operation in the field of power during the dynamic process of governing.*

This process of governing is orchestrated by business leaders who have pursued a project of capitalist globalisation based around free market conservatism and the adoption of neoliberal

norms, of which the Greenbury provisions are case in point, this is described by one respondent as a,

“quasi academic, quasi bureaucratic structure of regulation to which parliament has abdicated its responsibilities... This so called ‘independent’ group aren’t answerable to anybody” (Committee member 12).

Therefore the ruling elite had effective control over the Greenbury committee’s findings as the CBI and Conservative government had clearly created a committee composed of homogenous *dominant agents*. This perspective is further supported by Useem’s notable 1984 work, which suggested that an inner circle, “can impose class-wide logic on corporate decisions, and they often do” (Useem, 1984: 116). Greenbury and his committee were embedded, but also represented a distinct as an arm of the ruling elite. However, as illustrated in Figure 21 they were also set apart, to some extent, from the corporate elite from which they were drawn. A metaphorical picture emerges in a rich tradition of analysis, which identifies the existence of this elite group. Pareto (1935) innovatively used the term ‘elite,’ and more recently, Mills (1953) identified the existence of an elite group in society. The group he identified was a melange of economic, military and political agents, who united to form a dominant class or ‘power elite’. The work of these classical theorists illustrates that the various elites of a society, overlap and unite to form a single more powerful elite. The findings therefore presented in this chapter (and indeed in others) suggests a certain amount of solidarity with the work of Miliband (1969: 6) who suggested the pluralist view of society, that elite power is competitive, fragmented and diffused is indeed wrong, “that this view, far from providing a guide to reality, constitutes a profound obfuscation of it”. As has been illustrated the Greenbury committee and their findings, far from representing competing logics and independence from the ruling elite, partially constituted it.

So therefore the key feature of *how the ruling elite responded* is tied up with the dynamic nature of the field of power. There seems to be no obvious, or cohesive elite class, yet there are many elite groups operating in various fields, who, when an issue of mutual significance arise, come together to form powerful networks. Milibands analysis in his seminal 1969 work is almost half a century old, yet its powerful ideas resonate strongly in the important work of subsequent authors such as Bourdieu (1979), Picketty (2013), Atkinson (2015) and most recently Savage (2015), to name but a few. The stark and increasing inequality predicted by Young (1958) and the trans-national character of giant enterprise in advanced capitalised society is all part of a similar problem as Miliband (1969: 13) notes, “nothing about the

economic organisation of these countries is more basically important than the increasing domination by a small number of giant firms” and he goes on to predict this feature will become “even more marked in the coming years, not least because state intervention tends to, directly and indirectly accelerate the process”. The construction of the Greenbury committee is an example of such an intervention, indeed it seems to have contributed to, and not slowed the rise of the “supermanager” (Picketty 2013: 315) which is synonymous with the rise of the “supersalery” (Picketty 2013: 298)⁵⁶.

Phillips *et al.* (2006: 346) provide an illustration of what elitism means which can be appropriately applied in this context,

“The meaning of elitism is related to the social acceptance by a majority of individuals that the act of governing necessarily implies a small number of individuals”.

Therefore the committee in its most general sense can be seen as a structure of domination where a few of the most dominant agents in the field of power collectively *mined* their capitals, networks and alliances, both consciously and unconsciously, to maintain class based dominance.

5.9 Capital: Why Greenbury mattered

Section 2.8 discussed how Bourdieu’s sociology can explain why power and resources are held by a small number of dominant agents in both the corporate and ruling classes. To this extent, the Greenbury provisions are important in determining the ability of those in the field of power to control and retain economic capital, particularly as they have recently been elevated to statute in the 2013 Companies act. The transmutability of economic capital to cultural and symbolic capital, through education, is a widely acknowledged cyclical process (see Figure 11) inasmuch as higher levels of education typically yield access to higher levels of economic capital, whilst high(er) levels of economic capital, may lead to greater access to education (the literature associated with this statement was outlined in section 2.9). The process of capital generation is self-reproducing and “has potential to produce profits and to reproduce itself in identical or expanded form” Bourdieu (1986: 46) and as discussed, the propensity to reproduce is influenced by the legitimacy held by the agent in the field.

⁵⁶ For a comprehensive account of this trend see Picketty (2013) p 298-304. This narrative can be triangulated against data collected by the author which is presented in Figure 29.

Associated with this, are a number of observations which can be made regarding the composition of the committee itself. The committee’s provisions theoretically have implications beyond the directors immediately affected. What those at the top get paid will affect others in the company hierarchy, as Committee member 10 explained.

“If we can control what the executive directors get, the natural order of things are that things will cascade down, because the chief executive gets x and guy below gets a little less and so on. Outside of the financial sector, by and large, that is true” (Committee member 10).

So if the directors get a little more, then others will receive appropriately proportioned pay increases? If we look at data presented in Table 10, then triangulate this data with evidence of increasing income inequality presented in section 2.3 then Committee member 10’s belief is perhaps questionable.

| Year | FTSE 100 CEO pay | Average FTSE 100 employee pay | Pay ratio | Average UK salary | pay ratio |
|-------------|------------------|-------------------------------|-----------|-------------------|-----------|
| 1980 | 115000 | n/a | n/a | 6500 | 18 to 1 |
| 1998 | 1000000 | 21500 | 47 to 1 | 17400 | 57 to 1 |
| 2012 | 4500000 | 33967 | 133 to 1 | 26500 | 170 to 1 |

Table 10: Pay ratios in the UK 1980 – 2012. Source: HPC (2013)

The ability to harvest economic capital differs for various levels of worker, in part because of the ability of the agent to transmute educational capital into economic capital. Perhaps one of the most important determinants of opportunity and the subsequent levels of inequality is the schooling and further education an individual receives. Education is a key factor for the reproduction of elite groups, as is discussed in chapter 6 in relation to merit (see section 6.9). Education is a prerequisite for elite reproduction, but also is central to legitimacy more generally. Bourdieu and Wacquant (1998) explained the status quo as, “no power can be satisfied with existing just as power, that is, as brute force – entirely devoid of justification – in a word arbitrary, and it thus must justify its existence” (Bourdieu and Wacquant, 1998:

265)⁵⁷. Therefore education can be seen as a form of legitimation, which is one of the principle foundations of the domination of the ruling and business elite.

The classic frame of reference for examining social change in post-war British society is Halsey, Heath & Ridge., (1980) who illustrated the highly stratified system of education which the Greenbury members would have been exposed to contained public, grammar then secondary modern schools (in that hierarchy). The role played by educational institutions in reproducing patterns of inequality is widely acknowledged (Hutton, 1996) (Milburn, 2009) (Savage 2015). The key link in this process is the link between wealth and education or more appropriately between economic and cultural capital. As explained in section 2.3 and 2.6, executive remuneration and performance related pay has contributed to increasing income inequality (Atkinson 2015, Piketty 2013, Lemieux *et al.* 2009) which in turn may contribute to cyclical, self-reinforcing patterns.

Although symbolic or cultural capital in the form of education is not always transmuted into financial capital, proportionately, between 1970 and 2010 children from more wealthy households in the top income quartile, received college degrees than those in the bottom (Duncan and Murnane, 2011). Therefore as Piketty (2014: 485) put it, “parents’ income has become an almost perfect predictor of university access.” Therefore in mediating the extent to which economic capital is distributed, Greenbury and his colleagues were (consciously or unconsciously) contributing to perpetuating a generational spanning system of inequality by mediating the distribution of capital.

Essentially the education system in the UK served to disproportionately benefit elites across generations, as Maclean *et al.* (2006: 105) explain “Education serves simultaneously as a vehicle for the reproduction and regeneration of elites”. It is therefore no surprise to observe in our sample that in 1998 over 57% of executive directors attended an elite⁵⁸ university (see Table 11). These findings are broadly congruous with the study by Maclean *et al.* (2006) who found that in 1998 47% of all directors in the FTSE 100 attended an elite institution which is also broadly reflective of the biographical data collected for the Greenbury committee. In terms of their education, all of the members attended either an independent or grammar school while over 50% had attended an elite university.

⁵⁷ This is axiom of Weber which is at the centre of Bourdieu’s sociology.

⁵⁸ See Chapter 3 for a comprehensive definition. Elite constitutes attendance at a top 10 university in the UK, US or RoW.

Therefore, it can be said in terms of their educational background, that the Greenbury committee was broadly representative of the corporate elite in the field of power. This was a committee whose constituents had a similar career trajectory, they attended a private school, followed by education at an elite institution to prepare them for a career in the, largest, most dominant institutions. The committee members were then drawn from the upper echelons of the corporate world to determine the remuneration conditions for their peers in the field of power. The educational attributes of the committee's constituents therefore functioned as a, "legitimate mode of reproduction of the foundations of domination" (Bourdieu and Wacquant, 1998: 265). Since Greenbury there has actually been increasing numbers of directors in the FTSE 100 who are university graduates and less without formal qualifications (see Table 12). This possibly supports Bourdieu's assertion related to the ability of capital(s) to transmute, reproduce and assimilate which is illustrated in Figure 11.

| | FTSE 100 sample: 1998 | Harvey et al 2005 -1998 | The Greenbury committee: 1995 |
|--|--------------------------|----------------------------|----------------------------------|
| Proportional attendance at an elite university | 57.78 | 47% | 54.5% |

Table 11: Proportional attendance of the Greenbury committee at 'elite' institutions⁵⁹.

The similar organisations the committee were worked with, the fields they operated in and the biographical homogeneity illustrated in Figures 21, 22, and 24 may have contributed to the content and of the provisions. Mills (1953: 122) characterised this as, "group think" which contributed to, "the unification of outlook and policy." Additionally the habitus of the agents, particularly in terms of their own experiences and structural positions, may have played some part in the decisions taken. The committee were seemingly eager, in the report, to highlight their independence⁶⁰ but as has been adequately illustrated they were neither structurally independent, in terms of their direct associations with organisations who would be effected by their decisions, nor were they socially independent in terms of their background. Page 9 of the Greenbury report explicitly states they were independent of the CBI, yet five of the members were also active members of the CBI as illustrated in Figure 13. The committee believed themselves to be, "necessary agents of a necessary policy... they feel just as keenly

⁵⁹ A definition of elite universities is given in section 3.4

⁶⁰ Page 9 of the Greenbury report explicitly states they were independent of the CBI, yet 5 of the members were also active members of the CBI – see Figure 13.

the need to think in a ‘social’ perspective, to conduct themselves as agents of the state more than as businessmen, and to base their decisions on the ‘neutrality’ of ‘expertise’ and the ethics of ‘public service’” (Bourdieu and Wacquant, 1998: 383).

5.10 Conclusion

This chapter has harnessed Bourdieu’s concepts of capital, habitus, doxa and field(s), to explain how the ruling elite responded to executive remuneration scandals of the early 1990s. Through the union of theory and empirical data, it has been demonstrated how the committee came into existence and why members responded in the manner they did. Using the Greenbury committee as a case study, this chapter has illustrated a vision of society constituted by a stratum of fields, divided and sub-divided but with a unifying hierarchy of domination. At the very top of all fields, is the field of power, this is the field which the members of the committee operated in. Emboldened by their sense of civic mindedness they occupied what Mills (1956: 4) called, “the strategic command posts of the social structure,” and in doing so, helped in forming the dominant discourse relating to these issues.

More importantly, the implications of the provisions have influence beyond the remuneration of corporate directors. The legacy of the provisions are the implicit contribution they made to the wider debate concerning notions of merit, transparency and accountability, and ultimately concerning equality and fairness.

The chapter has sought to categorise elites based on a number of variables which are believed to define them as ‘elite’ (see chapter 3). In theorising that the Greenbury committee was embedded within the ruling elite, yet formed a strata below the ruling political elite and distinct from the corporate elite, it has illustrated the unique role they played in the events of the time. This has been done by combining primary data with first-hand accounts in order to understand the intervening constructs or processes that took place. Therefore, the chapter has sought explanations and clarifications.

The key contributions of this chapter to the thesis are twofold. Firstly, it helps to illuminate the processes by which the ruling elite responded to the threats posed by challenges to their dominant position. In doing so, it used the Greenbury committee as an illustration of the quasi-political form of self-regulation administered by the ruling elite. Theoretically the contribution is in characterising this process *as closure, which is identified as a particular class of operation in the field of power*. This idea resonated with the work of post-Marxists such as Pareto (1935), Mosca, (1939) Mills, (1953), Miliband (1969) and of course Bourdieu (1979) who all identified a broader unified elite, formed from distinct strata of society.

However the key difference is that in proposing the idea of closure as a particular process in the field of power, this highlights that the unity of elite groups are only combined on an issue-by-issue basis and therefore not consistently unified, which in this case, was exemplified by treatment of the issue of executive remuneration.

Finally, in a more practical sense it illustrates how those in society who operate in the field of power harness observable forms of capital, both consciously and unconsciously, to form policies which regenerate the elite body which they are constituents of. It is an example of the self-serving nature of power and the habitus of the agents that operate in the field of power.

Chapter 6 – The Greenbury Committee: the unforeseen consequences of transparent remuneration

“Incentives matter: not because, as some people crudely think, financial rewards are the only human motivation... Most people have more complex goals, but they generally behave in line with the values and aspirations of the environment in which they find themselves.” Foreword by Professor John Kay to the Kay report (2012)

6.1 Introduction

This chapter is about executive remuneration. It examines how successful the Greenbury provisions were in mediating the relationship between pay and performance. It evaluates the extent to which the Greenbury reforms can be considered to be successful, its consequences, and the basis on which the reforms were predicated.

The framework employed to structure this chapter is clear and logical. The initial sections present some of the empirical data collected. This starts in section 6.2, with an analysis of the key trends in executive remuneration since the publication of the Greenbury report. In section 6.3, it proceeds to investigate issues arising, including transparency, pay and performance, marginal productivity and equity-based pay, that may have contributed towards these trends. The chapter then moves to examine some of the more theoretical issues which may explain the empirical observations previously discussed. In this regard the potential impact of remuneration consultants on the patterns and trends identified, before finally debating the issues of talent and merit, which underpin much contemporary thought on issues of remuneration.

The evolution of the modern corporation since the time of Berle and Means (1932), has been profound and as the organisation has evolved, so have the instruments adopted to align principal with agent which aim to hold the agents to account. It is widely accepted that agency theory provides the underlying theoretical rationale for this, which explains how and why owners engage with their companies (Jensen and Meckling, 1976; Fama, 1980; Fama, 1983; Jensen, 1994). The problematic relationship between executives and their organisations, are unique to the modern corporation, a feature of which is disparate share ownership. Shareholders nominally own the company, but due to the size and complexity of these organisations, they have limited ability to moderate managerial behaviour. Nowhere is this more evident, than in the case of their remuneration.

6.2 Trends in remuneration

Figure 14 is based on data sourced from the Income Data Service (IDS) presented by the High Pay Centre (HPC). It illustrates that whilst the value of the FTSE 100 over the period 1998 to 2012 has been relatively flat, executive pay has nevertheless, steadily increased. The period of analysis was selected because of the congruence with other sections of this thesis. Chapter 4 examines a similar period, as does the data presented in chapters 5 and 7. Therefore this congruity increases the ability of each chapter to complement and reinforce one another's findings.

There is seemingly little discernible link between organisational performance in the top 100 companies, and executive reward over the period. Figure 16 illustrates the remuneration of the highest paid director in the FTSE 100, has increased to a much greater extent than that of the average worker.

The high pay commissions data presented in Figure 14 is perhaps less surprising when triangulated with evidence offered from other studies, which also find no conclusive and consistent link between executive remuneration and organisational performance across a variety of measures (Jensen & Murphy, 1990; Crystal, 1991; Conyon & Leech, 1994; Murphy, 1999; Conyon & Murphy, 2000; Bebchuk & Fried, 2003; Warner, 2003; Bebchuk & Fried, 2004; Ariely *et al.*, 2009; Bebchuk, Coehrn & Spanmann., 2010; Piketty, 2014). A literature review pertaining to pay and performance is presented in section 2.6.

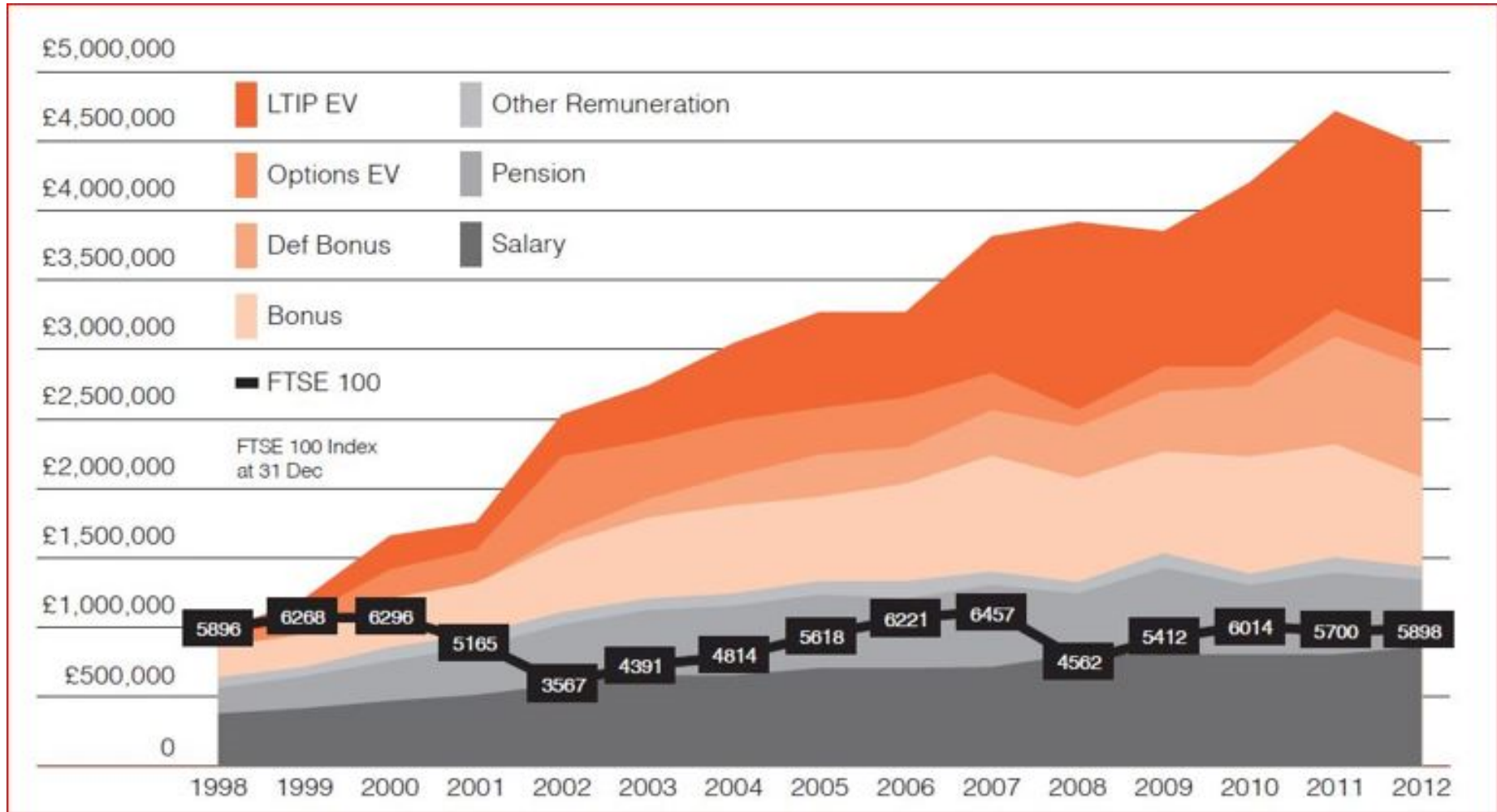


Figure 14: Executive pay and its constituents versus the value of the FSTE 100 between 1998 and 2010. Source: HPC (2012).

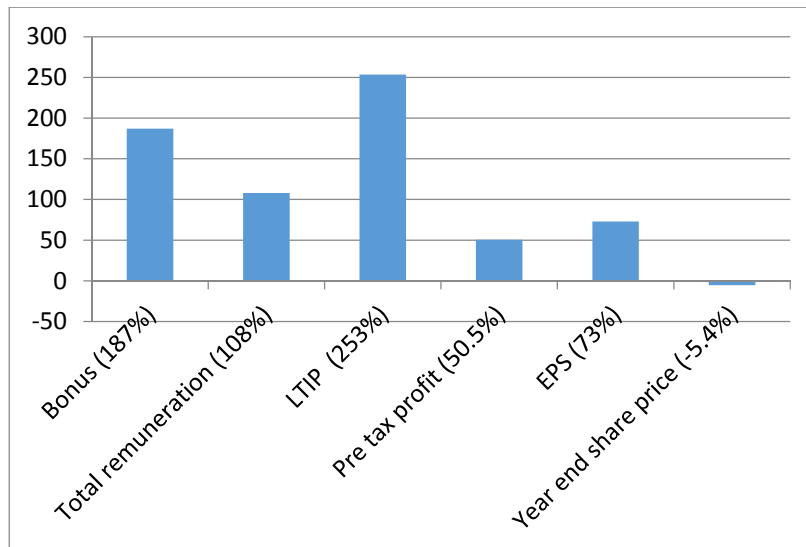


Figure 15: Change in FTSE 350 director's remuneration and corporate performance 2000 – 2010. Source: HPC (2012)

The Greenbury committee's decisions about how to recommend the mediation of the relationship between pay and performance were driven by a concern to increase publically available information about executive pay (as identified in chapter 5). This was in the expectation of increasing the pressure on companies to better align executive remuneration and performance. The key question arising in the context of the Greenbury provisions, therefore, was why, over the period, has there been a continued disconnect between executive rewards and performance and, indeed, whether the Greenbury reforms themselves provided any explanation of the trend.

The first observation to make is that remuneration data for executive directors was in fact available before publication of the Greenbury report in 1995. Remuneration consultants such as Towers Perrin had been producing remuneration surveys on behalf of leading companies since the late nineteen seventies. Furthermore, the disclosure of the 'highest paid director' earnings had been a requirement before 1995, as a result of the provisions in an earlier Companies Act.

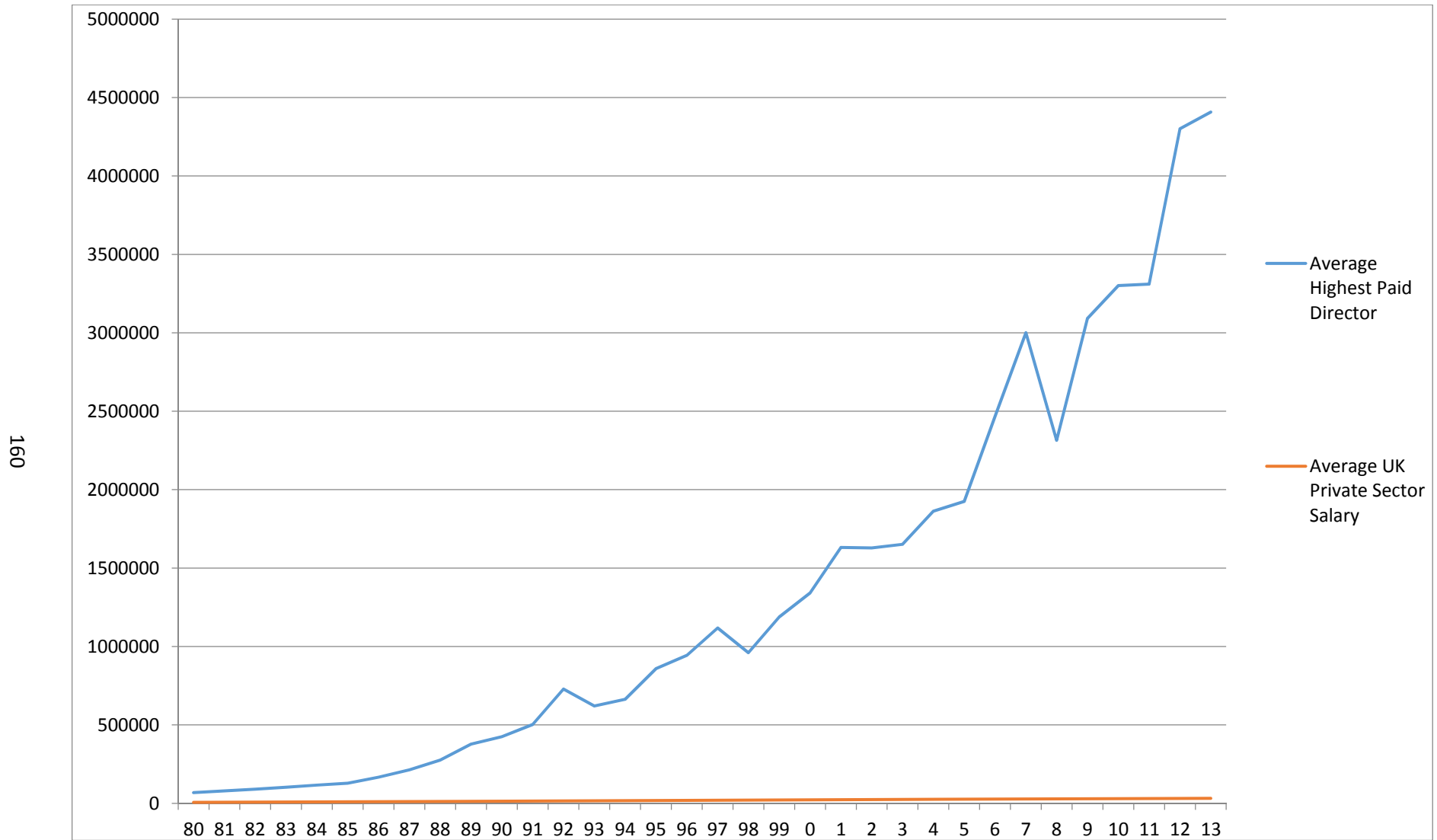


Figure 16: The remuneration of the highest paid directors in the FTSE 100, 1980 – 2013 (excluding pension contributions). Source: database

“This was actually instigated by Frank Haymer at the Cadbury company in the late 1970s. He said, “you know, we don’t have enough data on what our competitors pay and wouldn’t it be nice, Towers Perrin, if you actually did a survey for us.” And the first survey we did of executive director pay with all the warts and detail in, was in 1977” (Committee member 10).

This advisor to the committee elaborated on the role of remuneration consultants before the Greenbury report, explaining that consultancies made the data only partially available to certain companies and certain constituents of these companies.

“It was only available to participants... so we had a monopoly on information... By the time of Greenbury, you were a very unusual FTSE 100 company if you were not in the Towers Perrin survey” (Committee member 10).

The collection and dissemination of remuneration data was not a Greenbury initiative as such. After Greenbury, the information was no longer available simply internally, to certain personnel in the organisation, but via the remuneration committee report, it was now also visible to shareholders and the public. Greenbury provided that it should become a listing rule to publish a remuneration report, establish a remuneration committee and declare the earnings of each director by name. The difference was that the Greenbury provisions *mandated* the publication of the data and in doing so encourage increased corporate transparency which, the committee believed, would have certain effects. Importantly, the assumption of these requirements was explained by committee member 10,

“The thinking was, expose this stuff to the light and people will behave properly and moderate their behaviour....”

It was expected, at the time, that the committee anticipated that shareholders would exert pressure on companies to moderate their levels of remuneration, and that by increasing transparency, companies could legitimately claim accountability to their stakeholders. One committee member explained about the committee’s decision-making process,

“They thought it was a perfect answer to the people that were complaining. As long as you set out in your annual accounts how much you’re paying the top people... then it’s open to public scrutiny and the scrutiny of the shareholders and the NAPFs [National association of pension funds] of this world can come in and say, this won’t do... they thought that would have a certain calming influence on

the situation on the one hand, and on the other there would be a justification of the levels as they actually are” (Committee member 8).

The evidence from the committee suggested that they believed at the time this was the perfect solution,

“Well I think everybody thought that this was, if not a panacea, then very near as close to a panacea as you can find” (Committee member 8).

Prior to the Greenbury provisions in 1995, there was a correlation R squared of 0.88 between executive rewards and the annual closing value of shares, for those companies, at the year-end (1980-1994). After Greenbury, the same R squared figure fell (1995-2013) to 0.13. The scatterplots on which these figures are based is illustrated in Appendix 6. Accordingly, it is possible to conclude that the transparency created by the Greenbury provisions reduced the correlation between pay and company performance, as an unintended consequence of the increased transparency. The increased rewards for executive directors, after Greenbury, may be possibly as a result of the increased exposure of reward data, after the Greenbury provisions, in so much as all stakeholders could now see the level and method of remuneration, They could also see this information for all of their competitors in a way not available previously. The clear theoretical basis for these decisions is illustrated in Figure 17. Incumbent in this model are a plethora of theoretical assumptions which have questionable empirical foundations, as will now be discussed.

As discussed in chapter 2, the impact of regulation in promoting corporate transparency is a questionable one. The unintended consequences of the Greenbury provisions may have led, to a large extent, to the opposite effects coming into effect, to those which were intended.

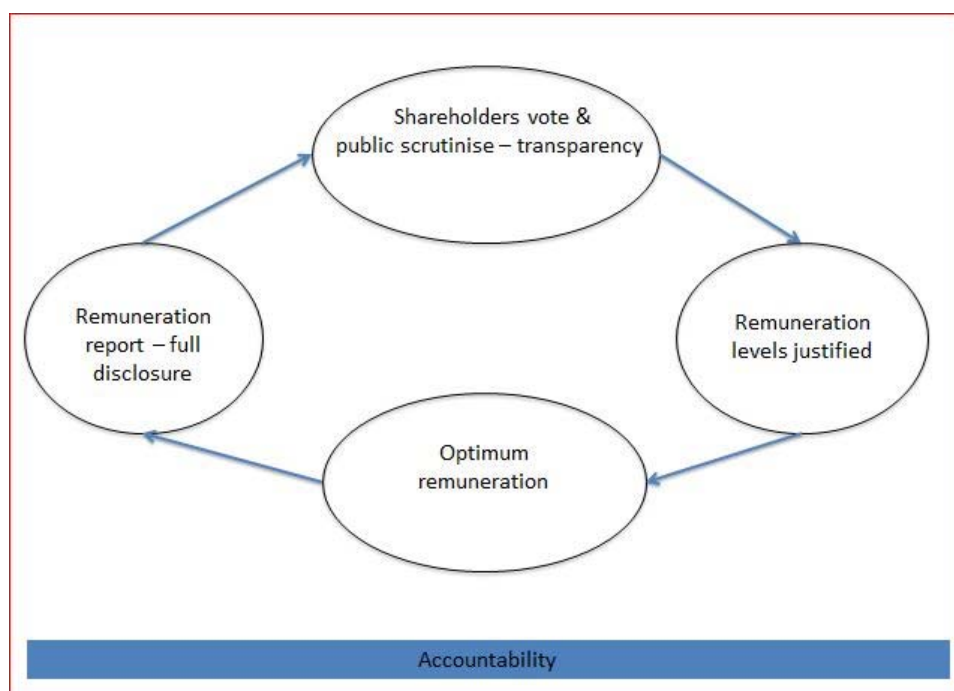


Figure 17: The agency-based premise of the Greenbury provisions

The argument that accountability can be commanded through the instrument of transparency seems to represent a position which is taken for granted. As discussed in chapter 2, transparency is conceived of as a universal solution to a wide variety of problems. The belief that it would induce certain, pre-defined responses, was very much the understanding of the Greenbury committee in early 1995. Yet the outcome of the Greenbury reforms for executive remuneration would seem to add weight to Roberts’ (2009: 958) assertion that fuller transparency is an, “impossible fantasy, but one that is nevertheless widely shared”.

6.3 The agency problem

Alongside incentive structures and the monitoring role of NEDs, the disclosure of financial accounting information represents an important corporate governance control mechanism. Companies are required to publish accounts which represent a true and fair⁶¹ (FRC, 2014) view of the company’s financial results and status. Such reporting provides a basis for shareholders to hold their agents, the executive directors, to account. The process has legitimacy because financial accounts are subject to, “auditing to strict accounting standards” (Cadbury, 1992: 35), which reduces the information asymmetry between executives and shareholders. Published financial accounting information may be used by investors to

⁶¹ According to the FRC - “The ‘true and fair’ concept has been a part of English law and central to accounting and auditing practice in the UK for many decades. There has been no statutory definition of ‘true and fair’. The most authoritative statements as to the meaning of ‘true and fair’ have been legal opinions written by Lord Hoffmann and Dame Mary Arden in 1983 and 1984 and by Dame Mary Arden in 1993 (‘the Opinions’)” See: <https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/True-and-Fair.aspx>

understand organisations' performance. It also provides support for the credibility of capital markets.

It is established in accounting, however, that accounts can, within limits, be reported in certain ways as to not report fully the true and fair financial situation of a company at a given time. Firstly, the performance of a company can, within certain limits, be adjusted to suit particular interests. As the former chief executive of one of the largest FTSE 100 companies explained,

“I said [to the analysts] you tell me what quarterly profit you want and I'll give it to you.” (Committee member 5).

Another Greenbury committee member reinforced this point,

“We all know that if you've got targets you can manipulate them. You don't make an investment this year you make it next year. You change it in some other way, you cut your prices, make a big sales push, you hit your target, then you leave” (Committee member 2).

These responses from the committee members indicate a regulatory framework for accounting that has evolved somewhat to provide for discretion. This system is vulnerable to use to directors' advantage and there may be occasional examples of audit failure. The results of this behaviour have included accounting scandals and corporate collapses. In the US, Enron's use of fraudulent accounting⁶² to misreport its financial position was material to its collapse in 2001. And the auditor, Arthur Andersen, was complicit in this deceit.

In 2014, Portugal's Banco Espírito Santo declared a three and half billion euro loss for the first six months of 2014 following an audit for a capital raise (Wise, 2014). Because the bank was privately owned, it was under no obligation to disclose its finances, other than to government tax and companies' authorities (Kowsmann, 2014) and had been purchasing its own debt. The auditors, KPMG, failed to identify the underlying problems in the bank's balance sheet leading to its bail-out and break up in July 2014 (Wise, 2014). Also in 2014 Tesco directors seemingly manipulated, albeit legally, the company's first half year profits.⁶³

⁶² Off-balance-sheet refers assets or debts that do not appear on a company's balance sheet. An example would be transferring risky or indebted assets to a subsidiary thereby removing it from the balance sheet of the parent company. More complex vehicles may take the form of credit default swaps which transfer the credit exposure of fixed income products between parties; in such cases debt can be 'hidden' from the balance sheet and in return the seller agrees to pay off the debt in event of non-payment.

⁶³ See: <http://www.theguardian.com/business/2014/oct/01/tesco-investigated-fca-accounting-scandal>

Solomon's (2009) recent review of issues in corporate governance identified audit as the most vulnerable area of governance control, requiring urgent improvement.

Secondly, a key research finding is that the Greenbury report itself led to increases in the complexity and volume of information being reported. Despite this not being seen as a problem during the Greenbury discussions, the hindsight view of the committee members, were that the increased disclosure requirements were too onerous and likely to fail to promote increased accountability. Adding to the credibility of their observations is the fact that the majority of the committee had held senior positions in FTSE 100 companies and had many years' of experience in producing [and one assumes reading] annual reports.

As will be discussed in chapter 7, the Greenbury committee members reported that the volume of information now required to be reported, is too great and too complex to digest. One commented that the increased volume of information disclosed has led to, "the loss of interest on the part of all but the most assiduous of shareholders" (Committee member 4). The view was taken that the average investor does not have the time to read annual reports. "The trouble is no one reads them, they are very complicated. I am very cynical as regards the impact of legal regulation" (Committee member 7). Committee member 5 supported this view,

"If you're a serious portfolio investor, you get books like this [holds up an annual report] from everyone and of course you don't read them and of course it's a waste."

A key point to recognise here is that the 'comply or explain' system relies on people reading, understanding and then acting on information disclosed. If the information is not read, as the findings seem to indicate, then the system of accountability becomes inoperable. Further, the findings indicate that the requirements for increased disclosure led, in some cases, to evasive behaviours. Committee member 9 explained,

"The more you load people with a complex system, the more professional advisors will find ways round it. They always do. If you put on pressure, make people feel very uncomfortable and compromise their ability to do their job, they're going to find ways round it."

The impact of the increases in disclosure is further elaborated in section 7.7. The next section will discuss these issues in relation to remuneration.

6.4 The failure of transparency

As discussed in chapter 2, the concept of transparency has become an institutionalised myth, and as such organisations that are seen to be transparent, can claim some degree of legitimacy (Meyer and Scott, 1983). The idea that by being transparent, certain behaviours are justifiable, based on the assumption of effective market sanction, is a taken for granted assumption in corporate Britain. Indeed the whole notion of transparency, has become one of the main motifs of these times (along with accountability).

The persuasiveness of the idea of transparency, underlines the important finding that all committee members believed that the Greenbury provisions had failed, in the sense that increased transparency had increased the ratcheting effect illustrated in Figure 18 and not the moderating effects originally desired.

“It’s amazing how naïve people can be, and we pointed this out at the time. You think that disclosing information about remuneration would have shamed people into not being too greedy... but all it does is actually encourage people to want more” (Committee member 10).

Another member concurred with that perspective,

“One of the great disappointments I have is that I think the committee failed... So we didn’t achieve anything!” (Committee member 1).

One of the members went as far as to say that the provisions had the opposite effect to that intended,

“It’s had the opposite effect to that which we intended. No question... I don’t know what, if any, impact the publication of the report had in constraining excessive pay packages” (Committee member 4).

Another member described the current average FTSE 100 chief executive pay of, “four and half million” a year as, “nonsense” (Committee member 1).

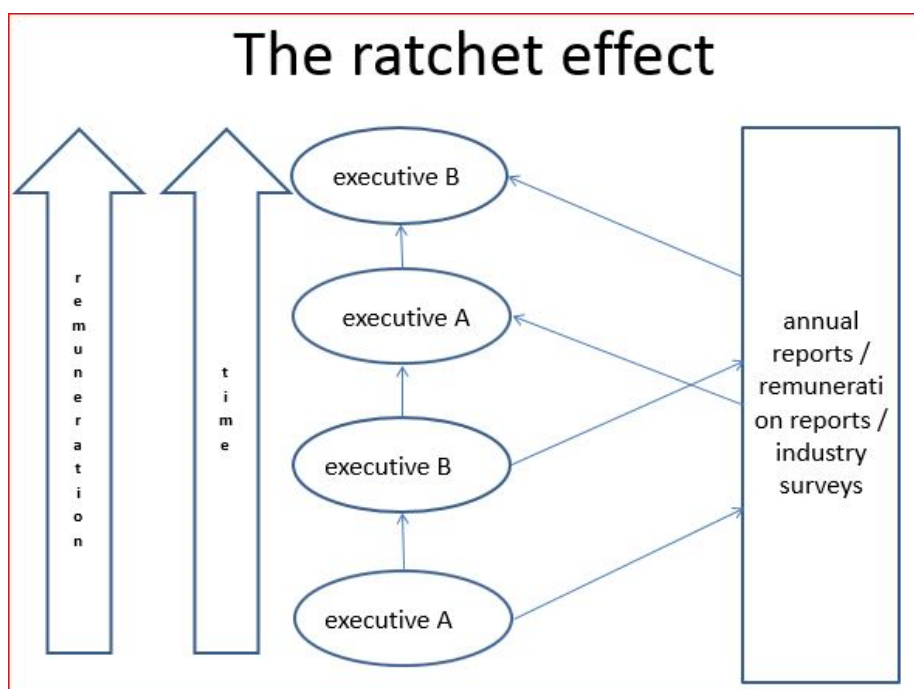


Figure 18: The ratchet effect

A key question arising from these discussions with committee members, was *why* the Greenbury provisions for increased transparency seemed to produce the opposite effect to that intended.

A first explanation is hinted at in the observation that at the time the committee felt that transparency represented a “panacea” (Committee member 8). Arguably, the provisions proposed an overly simplified and abstract notion of corporate accountability and agency relationships.

Butler drew on psychoanalytic theory (2005: 20) to explain that transparency creates a certain “opacity” within each individual. Her insights into transparency derived from the observation that a person’s unconscious cannot be narrated and therefore turned into knowledge. In other words, transparency is far too complex a notion, to be applied effectively in the present context. Messner (2009: 925) explains the problem thus,

“I cannot tell a coherent story of who I am and what I have experienced because my experience and conduct have not been motivated by my conscious efforts and deliberations, and because the minutiae and complexity of what happens will often exceed my recognition and memory”.

Similarly, transparency therefore proposes a simplistic ideal of the corporate actor based on pre-fabricated and hypothetical structures and as such, it is incapable of predicting the

complexity Messner described. Therefore what transparency offers is a remote view of corporate activity. The publication of accounts animates the process of accountability, but does not actually constitute it. I.e. the production of accounting information does not make an organisation accountable (Roberts 2010b).

The effects of transparency can be observed at an individual level. Individuals' responses to systems of control and accountability, which attempt to individualise them, suggest they will ultimately act in predictable ways. Covsaleski, Dirsmith, Heian & Samuel (1998: 294) suggested that because of increasing transparency, the objective is for the individual to become nothing more than a, "corporate clone", who maps the goals of the organisation and thus makes the control thereof more simplistic. This institutional perspective on transparency will be further elaborated upon in chapter 7.

The work of Roberts (2001b) is helpful drawing attention to the theoretical premise of the Greenbury provisions to provide a further, related explanation of why the provisions failed. Roberts (2001b: 1556) suggested that the shame, pride and conscience act as, "motivational levers" in the disciplinary process, clearly facilitated by transparency, which recognised that self-interested opportunism are a given facet of human nature. The idea is that excessive and explicit self-interested behaviour would could be controlled by the 'lever' of shame. This is the logic that arguably drives the agency based understanding of transparency and formed the foundations of the Greenbury committee's thinking.

Roberts argued that in the case of executive remuneration, the remedy is thought about in the same terms as the problem itself. "Paradoxically, the remedies that agency theory offers to the problems of self-interested opportunism in practice, serve to foster and feed the very mentality they are seeking to constrain" (Roberts, 2001b: 1557). Therefore attempts to control executive pay through transparency, using instruments such as LTIPs and share options, foster exactly the sort of behaviours Greenbury sought to constrain. The paradox is that through the instruments of transparency the committee were seeking to constrain self-serving behaviours at the expense of the shareholder, when in reality the structures and processes may have caused the, "gradual bidding up of top salaries [as a result of] awareness of comparability between companies" (Roberts 2001b: 1557). This was suggested by one advisor to the Greenbury committee,

"On the one had there's this measuring of competitiveness which can mean many things, and will always keep ratcheting up, because most people look at what's

competitive and will want to do a little bit better because they need to, or their executive team is better” (Committee member 10).

Accordingly, it would seem that the committee made recommendations were based on normative assumptions about the assumed disciplinary effects of transparency, which were in turn predicated on certain beliefs about human behaviour (see 2.2.3 and 2.2.4). Roberts elaborated,

“The process through which levels of executive pay sought to be constrained, along with their entirely contradictory efforts, can be taken as evidence of the self-fulfilling nature of agency theory assumptions. Viewed processually, the market mechanisms that are held to constrain opportunism and the pursuit of self-interest, can actually be seen to feed it” (Roberts, 2001b: 1558).

Increased requirements for transparency have increased the practice of benchmarking organisational performance. Benchmarks include share prices, TSR, dividend yield and other, “metrics that encourage gaming” (Garside 2015). This in turn has encouraged directors to exhibit behaviours, which tend to pursue these metrics in running their businesses, particularly in the short term. One interviewee and former FTSE 100 CEO opined,

“In big company profit is a very special concept because it’s an accounting concept... because of the way the industry is, the tax cushions, the write downs, the provisions. You could make up any number.” (Committee member 5)

A particular contribution of this section of the thesis has been to discuss the processes of policy formation that result from, “the interplay of theoretical ideas (concerning transparency) and historical evidence,” (Maclean *et al.*, 2015a). The research undertaken has demonstrated how the theoretical premise of the Greenbury provisions was generated by certain historically situated events and beliefs (for example see section 2.3 and 2.7, chapter 4 and the events which pre-cursed the Greenbury report in section 5.2). Notably, the failure of the transparency that Greenbury generated, has influenced subsequent reports. The Walker report (2009: 110), for example, suggested that further increased transparency in the financial sector would lead to, “the unintended consequence of provoking further upward ratcheting of remuneration”.

It has been argued that transparency only functions effectively as a mechanism of control if a number of conditions are met. For instance, the shareholder must have not only the desire, ability and the requisite information to hold the executive to account (Pettigrew & McNulty

1995 characterises this as ‘will’ and ‘skill’). Critically, they must also have the power to do so. As Cooper and Owen (2007: 653) explained, “if accountability is to be achieved, stakeholders need to be empowered such that they can hold the accounteers to account”. This power of sanction may mean that a director is not re-elected if performance [whatever this may mean, although normatively this is defined as TSR] is deemed unsatisfactory or it may mean a financial sanction in terms of lower levels of compensation. On the other hand, there is compelling evidence to demonstrate that contemporary ownership profiles have led to shareholder passivity (Goergen and Renneboog, 1999), and the tendency of institutional shareholders to ‘free ride’ (Shleifer and Vishny, 1997), perhaps leading to accountability relationships which are, “more assumed than demonstrated in practice” (Tilba and McNulty, 2012: 165). It seems that shareholders may actually refrain from intervening as a result of the excessive costs of doing so (Faccio and Lasfer, 2000) in terms of engaging with each company they have a share in. The compelling empirical evidence illustrating the limitations of transparency perhaps signifies, as exhibited through its texts, a less structural, and a more behavioural form of accountability (as identified in chapter 4).

6.5 Pay, performance & marginal productivity

Increases in remuneration since 1998 have not corresponded with equivalent increases in share prices (see Figure 14) or indeed pre-tax profit (see Figure 15). But how much of this divergence can be attributed to the Greenbury reforms? Was the transparency created by the provisions responsible for the ratcheting up of executive pay? Furthermore, how desirable is it in any case, that executive pay should be linked to performance in FTSE 100 companies? Certainly an explicit objective of the Greenbury provisions was to strengthen the link between pay and performance⁶⁴, which from the data outlined in the section 2.6 reviewing the academic literature, is a questionable one. It is also one which from the data presented in this study, the committee almost certainly failed to achieve.

Section 2.6 highlighted that there was a questionable relationship between pay and performance, particularly in FTSE 100 companies. This seems to be supported by the data presented previously in this chapter. The Greenbury report articulated,

“the performance of our companies depends to an important extent on the directors and senior executives who lead them” (Greenbury, 1995: 5).

⁶⁴ See section 1.15 of Greenbury report (p11).

One of the key issues therefore in the debate relating to pay and performance, is the extent to which an individual's labour is proportional to their remuneration. This relates to the notion of what economists refer to as *marginal productivity*. The Greenbury report clearly states that individuals should be rewarded for their, "individual contributions" (Greenbury, 1995: 22). In an environment like an assembly line or in a clearly measurable environment such as a sales department, the extent to which individuals' labour yields profit for a company can be made relatively clear. However, in the case of executive directors their roles tend to be unique, less quantifiable and imperfectly imitable (Barney, 1991). Add to this what is known about the long-run cyclical disconnect between pay and performance in modern markets, which is what Bertrand and Mullainathan (2001: 904) coined, "pay for luck", then their impact becomes increasingly hard to define without a large margin for error. "It becomes something close to a pure ideological construct on the basis of which a justification for higher status can be elaborated" (Piketty, 2014: 331). One of the central issues is the extent to which directors influence performance and this is an issue which divided the committee,

"The majority of performance will be about being in the right place at the right time, with the right balance sheet. There is quite a lot of things you can't effect... there are quite a lot that effects a share's performance, a whole range of market factors which you can't control..." (Committee member 7).

Whereas another member indicated a contrary opinion,

"Although it's regrettable as this isn't really the important thing, it is. Because people think it is. A chief executive now is getting paid about the same as a football manager... 4 or 5 million. It's not a big deal when you consider the size of businesses they run and the impact they can have" (Committee member 10).

So therefore the extent to which an individual merits reward based on their marginal productivity was not clearly recognised by the members of the committee.

The capitalisation of the 100 largest organisations has grown by a third since 2005 and the capitalisation of the largest 10 has also increased. Figure 19 illustrates that companies in the FTSE 100 are getting larger, in terms of their market capitalisation, but moreover, that the largest companies, are increasing in size faster than the smaller companies in the index. As companies increase in size, the relative amount payable to their directors as a proportion of their revenues, becomes of less consequence for their shareholders as it represents a smaller percentage of those returns. Therefore the marginal effect of their remuneration is therefore of

less relevance to the profitability of the company and therefore any returns distributed to shareholders. One committee member explained this logic,

“The terrible truth is that for a huge company, this isn’t a big deal, whether they pay 5 million or 2 million to their top people. If they really believe that somebody is worth that to them, then it’s probably the best thing for them to do – pay 5 million rather than 2 million... It won’t make a big difference to the amount they pay out in dividends” (Committee member 8).

The view amongst the committee members was very much that it tended towards irrelevance what directors were paid,

“If you’re searching for a finance director for a big prosperous company, you don’t care how much you pay. You just want to deliver the best finance director you can lay your hands on and if you have to pay 50 or 100k more, why would you be worried?” (Committee member 11)

| As at close on Tuesday, 16 March 2005 | | | | | |
|--|-----------|------------------------------|----------|----------|---------------------|
| Rank | EPIC | Name | Index | Price | Mkt cap (m)* |
| 1 | BP. | BP | FTSE 100 | 570 | 122,044.70 |
| 2 | HSBA | HSBC Holdings | FTSE 100 | 854 | 95,537.10 |
| 3 | VOD | Vodafone Group | FTSE 100 | 141.75 | 91,897.50 |
| 4 | GSK | GlaxoSmithKline | FTSE 100 | 1,269.00 | 74,401.40 |
| 5 | RBS | Royal Bank of Scotland Group | FTSE 100 | 1,783.00 | 56,530.60 |
| 6 | SHEL | Shell Transport and Trading | FTSE 100 | 501.25 | 48,201.70 |
| 7 | BARC | Barclays | FTSE 100 | 560.5 | 36,174.30 |
| 8 | AZN | AstraZeneca | FTSE 100 | 2,142.00 | 35,066.90 |
| 9 | HBOS | HBOS | FTSE 100 | 844 | 33,119.60 |
| 10 | LLOY | Lloyds TSB Group | FTSE 100 | 502.25 | 28,107.90 |
| Total capitalisation of companies 11 - 100 in the FTSE 100 | | | | | 602,899.00 |
| Total capitalisation | | | | | 1,223,980.70 |
| As at close on Tuesday, 30 September 2014 | | | | | |
| Rank | EPIC | Name | Index | Price | Mkt cap (m)* |
| 1 | RDSA+RDSB | Royal Dutch Shell | FTSE 100 | 2,437.00 | 152,368 |
| 2 | HSBA | HSBC Holdings | FTSE 100 | 626.1 | 119,894 |
| 3 | BP. | BP | FTSE 100 | 453.45 | 82,907 |
| 4 | GSK | GlaxoSmithKline | FTSE 100 | 1,413.00 | 68,525 |
| 5 | BATS | British American Tobacco | FTSE 100 | 3,482.00 | 59,242 |
| 6 | AZN | AstraZeneca | FTSE 100 | 4,441.50 | 56,084 |
| 7 | SAB | SABMiller | FTSE 100 | 3,428.00 | 55,255 |
| 8 | LLOY | Lloyds Banking Group | FTSE 100 | 76.87 | 54,865 |
| 9 | VOD | Vodafone Group | FTSE 100 | 204.4 | 54,166 |
| 10 | GLEN | Glencore Xstrata | FTSE 100 | 343.2 | 45,465 |
| Total capitalisation of companies 11 - 100 in the FTSE 100 | | | | | 990,716 |
| Total capitalisation | | | | | 1,739,487 |

Figure 19: The capitalisation of the FTSE 100 in 2005 and 2014. Source: DataStream Thomson Reuters

These observations echo the findings of Gregg *et al.* (2012), who found that company size (rather than performance) was the dominant variable which determined the level of executive pay. Furthermore the evidence would seem to suggest that bonuses were not responsible for the 2007/8 financial crisis as they found little sensitivity between pay and performance (Walker 2009). This potentially highlights one of the issues with performance related pay, an issue not considered in the Greenbury report; that is, the extent to which companies adopted performance schemes and not *relative* performance schemes, in other words schemes that imposed penalties on individuals as a result of underperformance. There was no sanction considered in the Greenbury provisions for under performance. It was assumed that underperformance would simply lead to the director receiving a market sanction (i.e. losing his or her job) and that sanction would provide appropriate checks and balances. This asymmetry may cause unintended consequences inasmuch as it may lead to excessive risk taking by executives who have everything to gain by outperforming the market, but very little to lose should company performance levels be more modest. The extent to which directors are accountable for negative marginal productivity was an issue which emerged from the data. “I’m all for linking pay and performance but no one’s ever going to take a pay cut if things go badly” (Committee member 2). Therefore this was identified as a problem the committee did not address at the time.

“When they have a bad year what happens to the bonuses? There’s a certain amount of limited news coverage when someone waives his bonus, but he shouldn’t be doing that... the bonus shouldn’t be triggered by the performance that’s caused him to waive it, if you see what I mean” (Committee member 4).

Another member explained the same issue in terms of the sensitivity of performance which seems to be a one way bet as during times of severe recession such as that encountered in 2007/8/9. “Base pay doesn’t change, bonuses come down significantly... but they’re still getting their base pay,” (Committee member 7).

One of the key challenges faced by the committee therefore was how to measure performance, the wording in the Greenbury report stated that reward structures should be subject to “challenging performance criteria” Greenbury (1995: 43). But what this actually means is very much open to interpretation as one member commented,

“People still subscribe to the idea that they will pay for performance in whatever form, but the difficulty is how do you measure performance and how do you define it...” (Committee member 10).

Many companies have interpreted Greenbury's provisions in attempting to correlate company performance (share price performance) with executive pay. But when measuring company performance in terms of total shareholder return (TSR) or share price over a period, the extent to which a director can modify his behaviour to achieve the results intended is highly ambiguous,

"The executives have got no control over that, so you're giving them an objective to behave in particular way but they can't adapt their behaviour in any way to achieve it. Which is pretty odd...? Secondly it's a crapshoot, because TSR over a period depends on the dates you choose, three days before or after and you'd get entirely different answers" (Committee member 12).

So therefore not only are the company results changeable to the extent they can be manipulated, but the way in which these numbers are interpreted is also flexible, to some extent. An example of the way in which Greenburys provisions clearly have had unintended consequences is in the use of equity based pay instruments which will now be considered.

6.6 Equity based pay and share options

A preferred instrument of remuneration which the Greenbury provisions endorsed concerned the use of share options (often as part of a LTIP). Options were used to link pay and performance which, as Maclean *et al.* (2006: 223) put it, represented a "one way bet". The executive has the option to purchase the shares at a specific price within a predetermined period. Essentially the executive cannot lose as the option to buy is never less than the current market value and he assumes no risk as an investor would. The Greenbury report explicitly encouraged directors to acquire large holdings in the companies they worked for.

"Remuneration committees should continue to encourage directors to acquire and retain significant shareholdings in the company" [and that the aim of any performance related instrument was to] *"encourage continuing improvement performance over time,"* (Greenbury, 1995: 43).

The argument supported by the committee at the time was that options align the interests of managers and shareholders and this leads to a win/win set of circumstances. However, as will be discussed, this argument can be challenged for a number of reasons.

It was identified in chapter 2 that empirical evidence linking pay and performance is, at best, mixed, (see section 2.6) and empirical data presented in the initial section of this chapter

support this claim. The assumed failures of the Greenbury provisions may be principally attributed to the specific mechanisms they endorsed which supported performance measurement. There are a number of important points to make to this extent.

Firstly, in awarding an executive with share options there is no charge to company earnings. The benefit has no cost to the company, just to its shareholders. So the relationship between company profitability, which may or may not translate to share prices, and their marginal productivity becomes somewhat remote (i.e. they do not share in the profit directly, they are remunerated by shareholders).

Secondly, the executive also receives disproportionately more through receiving options. Notable research indicates, on average, they receive 44% more remuneration on their options than if they chose to take a fewer number of common shares (Crystal, 1991). Issuing options also has tax implications. When an executive receives a bonus as part of their salary, that amount is treated as income, but in the case of options it is not, and can accordingly be attributed as a capital gain. Therefore options have two potential benefits for directors. They receive higher levels of remuneration whilst simultaneously benefiting from beneficial taxation arrangements.

Furthermore, once these options are exercised, the shareholders existing holding is diluted as a result of the new shares being issued. When share prices rise, then this is less noticeable. However, the shareholders still lose out to some extent. The shares might trade at £1 and not £1.20, given the increased dilution. “In less polite circles, we might speak of stock options as corporate theft – executives stealing money from their unwary shareholders” (Stiglitz, 2004: 122). Furthermore, the immediate aftermath of the Greenbury provisions coincided with a bull market which lasted until the ‘dotcom’ crash in 2001. Given that market booms weaken outrage constraints (Bebchuk and Fried, 2003) if the share price is rising, shareholders are much less likely to notice the ‘theft’ outlined above.

There are other complexities with options which the Greenbury report failed to adequately address. The uncertainty of the future value of the options when they are exercised was an important feature which determines the size of the overall package. Because of this uncertainty, it makes it hard to appropriately value them, thus reducing their sensitivity to performance.

“All they can do is put in a thing like fair value of options, if there are options, or they put some estimate of what an LTIP might pay out. It might pay out zero or it

might pay out at the maximum, so which numbers you put into these charts dramatically distorts the picture” (Committee member 2).

A director often has the opportunity to exercise his or her options many years in advance as it is commonly perceived that linking these options to long term performance is a good idea. But the extent to which their decision effects share prices many years hence is questionable as one member explained,

“There are quite a lot of things you can’t effect... there are quite a lot that effects a share’s performance, [and] a whole range of market factors which you can’t control...” (Committee member 7).

It can probably be argued that the Greenbury provisions encouraged longer periods of incubation (as illustrated in Figure 20) by directors. As identified above, as the length of retention increases, so does the difficulty in assigning their value. In a sense, this desensitises the relationship between a director’s individual contribution (marginal productivity) and performance, which was a key recommendation of Greenbury. This is interesting paradox because within the best practices reporting (i.e. Greenbury 1995, Kay 2012) longer retention periods are encouraged, but the exercisable share price many years hence may have no correlation with an individual directors marginal productivity, in the year the award was made.

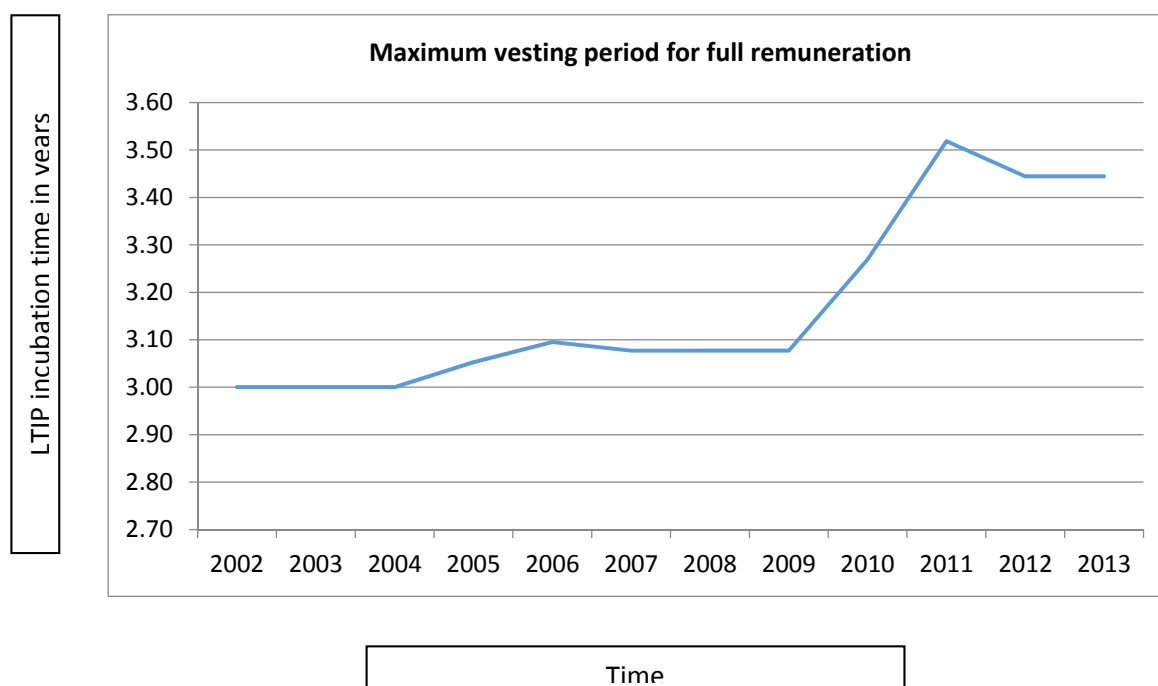


Figure 20: The average maximum vesting period for an executive director to achieve full remuneration in the FSTE 100. Source: DataStream Thomson Reuters

Another feature of options is that they often fail to reward an individual's marginal productivity and their value tends to follow patterns in the wider market (Bebchuk and Fried, 2003). Executives are therefore rewarded based on the stock performance, which may or may not have any relationship with their own personal performance. Herein lies the search to find a meaningful performance measure: a common language or metric to ensure equality of reward, which is fair.

“It's very easy to fall into the trap of saying we're only a median payer, when actually if you really analyse it and value it in immense depth, and lots of remuneration committees haven't got the time or the energy to do that, you get misled” (Committee member 2).

These themes relate to the complexity highlighted earlier in this chapter (in section 6.5). It is probably true that the use of remuneration consultants (as will be discussed in section 6.7) has affected the transparency which Greenbury intended to create, in an inverse manner. Often, reward packages are so complex they are not only unrelated to an individual's marginal productivity, but they are difficult to technically account for. An example of the arbitrary nature of the appropriation of options was recalled by Committee member 10, who recalled that the committee did discuss these issues at the time,

“Nobody was really sure what was going on, you were allowed to have up to four times pay in share options, but we all thought, “maybe this [depressed stock market level] won't last, so let's give the boys four times pay.” Then of course, the share price rose”.

Another member of the committee indicated that errors had been made in the promotion of options in the report, but he declined responsibility for it.

“If you remember when the water industry was privatised, that was one of the biggest stupidities if you like, and some of the share options... they made millions out of. Big money that's for sure, because they'd all been set wrongly... so I think we weren't responsible but we still got criticised” (Committee member 1).

In terms of the future, equity based pay in the UK is probably on the increase. In 1997, equity based incentives formed just 19% of a typical CEO's package (Canyon and Murphy, 2000), but by 2006, 30% were equity based incentives and a further 19% were formed as bonuses (Fernandes, Ferreira, Matos & Murphy, 2009). This trend indicates packages that are increasingly being restructured along US lines (Macleane *et al.*, 2006; Lee, 2002). Despite the

increases in equity based pay occasioned by the Greenbury provisions, one of the interviewees suggested scrapping them,

“We should abolish annual bonuses for chief executives because I’ve never seen a chief executive who comes to work for his annual bonus, they come to work for ego, for the fight! They are driven people. This pernicious system has driven completely new behaviour which is not helpful” (Committee member 12).

However this perspective is not one shared by the authors of recent important governance reports. Paradoxically, John Kay in his 2012 report, noted that companies should actually encourage even longer periods of share options.

“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, 2012: 79).

The historical context of this perspective can be traced back using the sample of corporate governance texts discussed in chapter 4. There were statements made in the Greenbury report which recommended that options shouldn’t be exercisable within 3 years (see section 6.34). This position was then reiterated in the Walker Report. Walker stated that half of incentive payments should mature between 3 and 5 years (see recommendation 33). Indeed, the relevance of *intertextuality* (Kristeva, 1980, Allen 2011) proposed in chapter 4, and of *representational truth* (Maclean *et al.*, 2015a) highlighted in chapter 3, is powerful in this case. It is an example of a “historically informed theoretical narrative” (Maclean *et al.*, 2015a: 2), which exhibits, “the residue or sedimentation of prior templates” (Suddaby *et al.*, 2014: 113). The ‘templates’ relating to long-termism represent ideas which are easily propagated and sustained. The legitimacy of large payments are reinforced by organisational narratives pertaining to long-termism and incentivisation based on profitability.

The implication is, that in increasing maturity periods, it further desensitises the relationship between marginal productivity and performance. If the CEO is no longer in post the remuneration he is receiving will entirely depend on the stock price on the day he exercises the options. This may or may not have any relationship with his own efforts, many years hence. Attributing blame or reward to individuals in large organisations is problematic enough without adding a number of time sensitive variables, which increases the complexity of the calculation.

Kay's recommendation that any bonus be paid in shares⁶⁵ is probably recursive of the failures of the Greenbury provisions. In remunerating directors in this way, it increases the complexity of agency relationships, leading to more uncertain outcomes. As was discussed in chapter 2, there is mounting empirical evidence which substantiates the position that agency theory does not provide a sound basis for modelling remuneration packages for executives (Meulbroeck, 2000; Hall and Murphy, 2002; Pepper & Gore, 2013; Pepper *et al.*, 2013). This view is supported by members of the committee (albeit with hindsight) as they explained about the quasi-arbitrary nature of the performance measurement techniques which have used.

“At the time we were talking about relative TSR being quite a good measure, [but] we as a company started to say it's actually quite a dodgy measure” (Committee member 10).

It seems to be the case that performance related instruments often fail to meet their stated objectives. At worst, their effects are actually counterintuitive. The conclusion formed from a synthesis of the oral submissions, data collected by the researcher and the academic research outlined in chapter 2, is that the Greenbury provisions represented a superficially appealing narrative which failed to apply in practice. The level of abstraction required to clearly define the relationship between the various instruments of remuneration and marginal productivity is problematic, but critically, the weight of historical narratives, both in textual form and elsewhere, suggest against a simple resolution of these issues.

6.7 Remuneration consultants

One of the main consequences of the Greenbury recommendations was the increasing use of professional remuneration consultants to advise and support the work of the remuneration committee in setting standards of executive pay⁶⁶. Their impact was suggested in hindsight to be, “a seriously pernicious influence on this market” (Committee member 2). Their encroachment of this has been gradual and subtle, but represents another unintended consequence of the Greenbury provisions, as will now be highlighted.

The intended role of the remuneration consultant(s) is to advise the remuneration committee on remuneration policy and appropriate scale thereof. They also provide the data and present a menu of choices (Bebchuk and Fried, 2004) to the remuneration committee. Their use highlights a number of important issues.

⁶⁵ See Kay (2012) p79. Para 1.12

⁶⁶ See: Greenbury (1995) p25. Para 4.17.

First, remuneration consultants have contributed to the widespread use of increasingly complex remuneration instruments to reward executives which are characterised by the increasing use of share options, LTIPs and deferred bonuses as part of directors' packages, all of which increases the conditionality associated with payment. This is graphically illustrated in Figure 15. The extent to which it is possible to determine an individual's marginal productivity using these instruments seems to be questionable. What they often seem to measure is performance against comparator companies or industry standards, not the contribution of an individual executive.

“Of course, there's a disconnect because when you're setting pay levels. You are as much as anything, looking at competitive levels. So until everyone is paid exactly the same they'll always be a reason to pay more you know. There would be no problem if everyone was paid the average” (Committee member 10).

Secondly, research has shown that companies who employ remuneration consultants tend to pay their directors more than those that do not and those that do are more likely to use options or other instruments to 'align' interests (Conyon *et al.*, 2009). There is therefore a clear argument that remuneration consultants have been central in contributing to the ratcheting up of executive pay. This was a widely espoused view with hindsight by members of the committee.

“Everybody wants [not] to be in the average, and the whole thing goes up and up. I do think remuneration consultants fuel that... Most boards do not have the time and knowledge to come up with some of these schemes without the advice of advisors” (Committee member 2).

Another member held a similar view calling remuneration consultants, “on balance a source of pay escalation” (Committee member 11). He went on to say that, “They [the consultants] will say ‘We know the market, you're only paying 500K but the market says its 700k for this guy’.” This issue was further compounded by the near monopoly status of a small number of consultancies who operated in this market. During the 1990s, when some of the largest increases in pay took place (see Figure 16) the consultants, Towers Perrin, held a dominant position in this market, “You were a very unusual FTSE 100 company if you were not in the Towers Perrin survey” (Committee member 10). This situation is mirrored in the United States, research by Conyon *et al.* (2009) found 81% of the S&P 500 were advised by just four remuneration consultants. The implication of this is that although they certainly would have had comprehensive knowledge concerning levels of executive pay, the possibility is that their

dominance may have led to the ratchet effect describe previously (see Figure 18). It may be also worth noting the possibility of nepotism, at the time the ‘remuneration advisor’ to the Greenbury committee was also chief executive of Towers Perrin.

The potential effect of the consultants was also highlighted by another advisor to the committee.

“[The remuneration consultants] were going round encouraging people and saying, “a lot of our clients are paying 5 million a year for their top executives,” and if you wanted to stay with the best people you have to face up to it”
(Committee member 8).

Therefore there seems to be a large amount of evidence that the use of consultants has led in part, to the increases in executive pay. Breaking the unanimity of opinion was the remuneration advisor to the committee. He held a contrarian view, and as such abdicated all responsibility for any involvement in the ratcheting up of executive pay;

“In the same way I can give you political, moral and social judgements about this [the use of remuneration consultants] and its influence. But at the end of the day, you just try to do your best. If they say, “we want to measure total shareholder return” we say, “this is how you do it”. We are only humble servants. Just as you are humble observers...” (Committee member 10).

The industry of consulting on remuneration that came across from the large American multinationals was partly responsible for the ratcheting effect, as Crystal (1991: 218) observed,

“Ostensibly, compensation consultants were hired to form an objective analysis of the company’s executive pay packages, and to make whatever recommendations the consultant felt were appropriate. In reality if those recommendations did not cause the CEO to earn more money than he did before the consultant appeared on the scene, the latter was rapidly shown the door”.

Additionally, companies such as Towers Perrin have remuneration consultancies that also provided other consultancy work in areas outside of remuneration. This may potentially have led to conflicts of interest. For instance, indicating the executive team are too highly remunerated may lead to the loss of business in other areas, as it is the executive team who

contract the consultants. There is only notional evidence in the data to suggest practice occurs in this way, but never the less, the pressure remains present.

There is little agreement on the measurement of performance measurement systems among remuneration consultants. Using a sample of companies from the US, when performance was poor, consultants tended to look to peer group metrics as opposed to other performance targets (Conyon *et al.*, 2009). There is also little agreement on the criteria for performance by which executives can be judged. Each set of targets are specific to a given organisation and/or that individual. The variation in measurement techniques brings some benefits in terms of specificity, but it can also lead to a lack of coherence and therefore deterioration in confidence.

One of the key features of remuneration policies are their increasing complexity, which leads more and more non-executive directors, who are quite understandably not experts in remuneration, to defer to professional, ‘experts’ in remuneration. In 2012 the former business secretary, Dr Vince Cable presented an amendment to the enterprise and regulatory reform bill,⁶⁷ which augmented the Greenbury recommendation of shareholders voting on executive remuneration. Shareholders retained binding votes on pay policy, not merely advisory votes. Additional reporting requirements were also introduced which mandated that companies produce comparative figures on pay and performance for the first time. However this also seems to be compounding the problems associated with the use of remuneration consultants.

“Unfortunately one of the unintended consequences is they [the remuneration consultants] are holding the pen in the writing of remuneration reports because everybody is scared of these policy documents that they are defaulting to the consultants writing large chunks of them.” (Committee member 12).

It also has to be acknowledged that remuneration consultants were active in setting remuneration policy for some companies before the Greenbury report, as one of the committee members explained. *“In a sense, the monster has already been created”* (Committee member 10). The previous section of this chapter highlighted the increasing complexity of remuneration packages which have come about in part because the Greenbury provisions. This has led to remuneration consultants *‘holding the pen’* which has led to what Bebchuk and Fried (2004) describe as ‘camouflage’,

⁶⁷ Dr Cable’s statement on the bill can be found here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31377/12-899-oral-statement-on-directors-pay.pdf

“The designers of compensation plans can limit outside criticism and outrage by dressing, packaging or hiding - in short, camouflaging – rent extraction”

(Bebchuk and Fried, 2004: 67)

Therefore, according to Bebchuk and Fried’s (2004) *managerial power thesis* outlined in chapter 2, managers will prefer remuneration packages that obscure the amount they are receiving, whilst presenting the packages in ways that make them easier to justify and defend (to shareholders). Therefore the movement to more complex packages of remuneration not only lead to a more obscure representation of executive remuneration, but actually may provide incentives to, “cook the books in an attempt to fabricate the levels of corporate performance that will trigger the payoff” (Harris, 2009: 152). Indeed research conducted by Harris and Bromiley (2007) suggested that agency theorists are naïve in presuming that managerial behaviour as a result of incentives will build true value for their companies, and not simply pursue actions to trigger pay-outs.

The Greenbury report very much normalised the status of remuneration consultants⁶⁸ as a technically specialist group within the professional services industry. An entire industry of remuneration consultancies has established itself, particularly since Greenbury. These have encouraged, as one member puts it, the, “stoking up” (Committee member 8) of executive pay. This is not to imply that the provisions were necessarily responsible for the increased use of consultants but merely that the report illuminated the process which, “the Towers Perrins of this world were doing in a less accountable way” (Committee member 8).

One of the observations evident from the interviews indicated that organisations have what Crystal (1991: 221) called, “institutional pride”. It seems that no company wants to pay below the average because that signals to the market that the company is in some way inferior. Most companies want the best person they can possibly get as one member commented,

“If you’re searching for a finance director for a big prosperous company, you don’t care how much you pay” (Committee member 11).

Therefore pride is institutionalised inasmuch as remuneration is seen as proxy for ability. The argument is that no company’s strategy would ever be to recruit an averagely capable director, and therefore it follows that remuneration committees will seek not to pay them averagely? This may lead to the sort of ratcheting observed in Figure 16.

⁶⁸ Page 25 of the Greenbury report says “The committee may need to draw on outside advice” and that “management will normally hire outside consultants”.

In seeking to provide evidence for the executive's ability, remuneration committees use performance measurement as a significant justification for pay packages. Normally this means company performance is compared to a peer group, or it might mean any number of other benchmarking indicators such as EPS, pre-tax profit, share price performance, etc. The key point to make here is that with various measurement techniques come various degrees of errors one advisor to the Greenbury committee pointed out,

“Performance is the holy grail... I find it quite charming also because at the time we were talking about relative TSR being quite a good measure. We as a company started to say it's actually quite a dodgy measure” (Committee member 10).

Peer group comparisons are inherently difficult to measure as no two companies are the same. So in a sense it is not possible to compare like with like. In much the same way, share price performance may be reflective of the wider cyclical nature of markets and not in any way accurately representative of performance. Furthermore, there is evidence of some directors stretching the definition of what might constitute their 'peer group' to include more complex, larger rivals, who tended to reward their executives more highly (Faulkender and Yang, 2010).

So it can be stated with some degree of certainty, that performance measurement is not an absolute science. Furthermore, the remuneration consultant's interpretation of performance exists only in the narrow economist's sense. It represents a set of criteria which followed through into the Greenbury report and continued in the later texts. What is measured affects how rewards are determined. If what is being measured is defined in narrow bands then this will fail to reward merit across the wider spectrum. There is no mention in the Greenbury report of the environmental, ethical or social aspects of performance. If accounting practices define performance in particular ways then it follows that most performance schemes will endeavour to reflect these measures. What Greenbury means in terms of performance is an accounting definition of 'financial performance,' with little considerations of the wider effects of corporate decision making⁶⁹ such as environmental or social considerations for instance.

⁶⁹ See page 35 of the Greenbury report. Para 6.8 states the principles remuneration committees should consider when setting remuneration levels.

6.8 The market for executive talent

The meritocratic system purported by the neoliberal system implies that the most talented people receive the highest rewards, based on the market rate for such talent and such a system is perceived as natural, as one committee member suggested,

“These people [FTSE 100 directors] are very important people and should be celebrated” (Committee member 10).

However, “where there is a highly competitive labour market, it is those who can maximise every possible advantage and who start from the most advantaged position who are best able to succeed” (Savage 2015: 400). Given the increasing quantification and analysis yielded by the increased transparency (and arguably the use of remuneration consultants) concerning remuneration, this has made the definition of merit [and by proxy talent] more justifiable. Coupled with this observation is the tendency has been for companies to pay their chief executives in the upper quartile or at least the median,

“we couldn’t be bottom, we had to be top quartile because our guys are terrific. Nobody is going to say ‘let’s pay bottom quartile!’” (Committee member 1)

It seems that few remuneration committees would want a chief executive to be paid less than the comparator group as each company wants to have the most capable or talented people running their organisation. Such a set of circumstances is based on the market for executives, supported by the assumption of corporate talent. One of the Greenbury members commented that a company who he represented as a non-executive director had a policy of paying their executive board members 10% above the median of their comparative group.

“I rang him about this and I said, “do you realise what a nonsense this is” and he got very very cross with me. You know, “we’re special! We’ve got a more ambitious programme than everybody else.” It’s extraordinary how people can persuade themselves they should have more than everybody else,” (Committee member 4).

In such a way Bebchuk and Fried (2004) suggested that executives are effected by *cognitive dissonance*,

“They develop beliefs that are consistent with their self-interest, and enable them to justify the benefits they believe to be fully deserved, an executive or former executives who have benefited from generous and favourable pay arrangements is

thus likely to have formed a belief that such arrangements are desirable and serve shareholders” (Bebchuk and Fried, 2004: 33).

Such a position was supported by one of the advisors to the committee,

“I’m a great believer in the importance of the chief executive and therefore what you pay him...so [I say] fine, “pay him 100 times what we pay the average worker” (Committee member 10).

The beliefs of the committee are critical in understanding why they reached the decisions they did. The population that form remuneration committees seem to be a relatively small elite, who share many similarities (as identified in chapter 5). Table 12 illustrates that the over two-thirds of remuneration committee members between 1998 and 2010 attend an elite institution⁷⁰ and Table 13 shows that the overwhelming majority of non-executives are former executives themselves. This is important on two counts, first, it follows that because educational institutions are social classifiers (see section 2.7.4) and, “sit at the apex of highly competitive recruitment and training processes” (Savage 2015: 401), it makes the allocation of merit much more justifiable, “we see this syndrome operating very actively in the search for ‘talent’ embarked upon by leading companies” (Savage 2015: 400). Secondly, it corroborates the Bourdieusian notion of capital transmutability outlined in the previous chapter. In this case the flow of capital from educational capital, to positional, and by proxy, economic capital, is facilitated by the composition of remuneration committees shown below.

| | 1998 (%) | 2005 (%) | 2010 (%) | Total (%) |
|-----------------------------|-----------------|-----------------|-----------------|------------------|
| Chartered accountant | 2.3 | 7.3 | 7.1 | 5.5 |
| Elite | 76.7 | 70.7 | 73.8 | 73.8 |
| No degree | 13.9 | 17.0 | 7.1 | 12.7 |
| Non elite | 6.9 | 4.8 | 11.9 | 7.9 |
| Grand Total | 100 | 100 | 100 | 100 |

⁷⁰ See chapter 3 for a definition of ‘elite’. Essentially the definition encompasses the top 11 universities in the UK, US and Rest of the World.

Table 12: The educational background of FTSE 100 directors who sit on remuneration committees 1998 – 2010.

Because 91% of non-executives are either former or current executive directors (Pass, 2004), not only does this mean that it is likely they will hold beliefs that are conducive to granting generous executive compensation [which previously applied to themselves], it also means they can influence other companies' ability to grant equally generous levels of pay.

| | |
|---------------------------|------------|
| Former executives | 165 |
| Current executives | 124 |
| Other background | 28 |
| | 317 |

Table 13: Background of non-executives in FTSE 100 firms in 2001. Source: Pass (2004)

Several members of the committee subscribed to the idea that executive directors were incredible natural talents that deserve what they receive in rewards. Two of the members quoted footballers as being a comparable market for talent,

“I said, “I think we are entitled.” Not one of us is earning more than half a million a year and it doesn’t compare with Andy Cole. So she [a female MP] said, “who is Andy Cole?” Andy Cole is a footballer and is earning almost twice as much as any one of us. He gets over a million pounds a year so I said, “I don’t think we are fat cats.” There was a silence as they tried to work it out.”

(Committee member 1)

Whilst Committee member 10 also made the same ‘footballer’ comparison.

“A chief executive now is getting paid about the same as a football manager... four or five million [pounds a year]. It’s not a big deal when you consider the size of businesses they run and the impact they can have... They pay Sam Allardyce five million... let’s not get started on the pop stars, golfers or footballers...”

Clearly therefore, in selecting the most highly paid individuals in society as examples to justify high pay (and quite often their own high pay), the Greenbury members were of the view that executives are talented and unique creatures. If the most talented executives therefore run the largest businesses, the logical outcome is that companies will outperform their competitors? These observations are based on the assumption of a perfect market for talent. If it was the case then French and German chief executives should theoretically be remunerated more highly than their UK counterparts on the basis of the greater productivity

of the companies which they run (Lawlor, Beitler, Kerlsey Steed & Cottingham, 2009), but this seems to be not the case.

The trends observed in executive remuneration do not exist in isolation, they are grounded in the wider ideology of our times outlined in chapter 2. In a commensal sense, this ideology creates winners and losers. A symptom of which is what Piketty (2014: 418) calls, “meritocratic extremism”, the foundations of which, may be based on certain myths explained by Committee member 3,

“the existence of hedge funds and private equity offering gazillions [sic]. There is maybe a war for talent, but it is all part of this leadership myth”.

The wage inequalities highlighted in Table 10 can be seen to be justifiable based on a broader set of beliefs about inequality prevalent throughout society. How society collectively perceives individuals to be worthy and thus, legitimise their rewards, is crucial to any justification of pay. Bourguignon (2015: 88) suggests that whether, “these [executive] salaries reflect real talent is open to debate” and that, “these practices have become established as new social norms, weakening the link between remuneration and true executive productivity” (p89). In the UK there is a belief that high pay for some is a necessary outcome of the system in which we all operate tied up in beliefs about proportionality and merit, which has paradoxically fuelled increasing inequality, “meritocracy is not a curb to increasing inequality; it is actually implicated within it” (Savage 2015: 400). Therefore if we are to further understand the relationship between pay and performance, the next logical step is to disinter the foundations of the concept of merit enshrined in the Greenbury provisions.

6.9 Merit

The initial section of this chapter presented data in order to answer RQ3, namely to establish the relative success of the Greenbury provisions in mediating the relationship between pay and performance. This penultimate section of the chapter is an interrogation of the ideological foundations of merit that underpinned the committee’s thinking. This is particularly relevant because (As noted in chapter 4 with reference to the Kay report) there continues to be an unwavering and, in the case of executive directors, an increasing, commitment to the orthodoxy of performance related pay (see Figure 14).

There is a popularly espoused view that paying for performance based on merit is perfectly acceptable (Sampson 1965) (also see section 2.6). After all, if people work hard and produce rewards for others as a result of their talents, why shouldn’t they share proportionately in the

fruits of that labour? Such a position is deeply rooted in the philosophical notions of justice and desert (Rawls 1970). As humans, we have an almost innate belief in due desert and proportionality, there is a desire to reward a person in proportion to the discretionary effort in delivering what was intended (Hutton, 2010). Also such notions of social mobility have always been central to US culture (Phillips *et al.*, 2006) and has become increasingly prevalent since the Reagan/Thatcher administrations of the 1980s (Varoufakis 2015). In the UK it is not hard to find examples of people that have come from relatively modest backgrounds, and elevated themselves, through supposed hard work, ingenuity and intelligence, to the field of power (as discussed in chapter 5, Sir Richard Greenbury is case in point in this respect).

What is commonly perceived as worthy of merit is very much derived from the idea that IQ plus effort equals merit (Sampson 1965). This is a widely held belief which has come to constitute thinking in 21st century Britain, the modern foundations of such thought can be traced to Anthony Sampson's 1965 work "Anatomy of Britain today" where he explicitly proposes the equation $IQ + effort = merit$ (Sampson, 1965). As will be discussed, the 1944 Education act, ostensibly an egalitarian, may have actually contributed to increasing inequality.

Young (1958) predicted in his influential, 'The rise of meritocracy', that perusing a meritocratic agenda would only perpetuate inequality and lead to fundamental changes in the system of class (a claim later empirically reasoned by Savage *et al.* (2013, Savage 2015)). Moreover it would provide justification for the dominance of an elite class and the formal power of government, "Educational injustice enabled people to preserve their illusions, inequality of opportunity fostered the myth of human equality" (Young, 1958: 85). This is a prediction that has come to be borne out by the statistics. For instance, see the highly cited study by Savage *et al.* (2013) study for empirical evidence of Young's (1958) prediction of the creation of a small elite class in the UK. Indeed, as noted previously, Piketty (2014: 416) also references the growth of, "meritocratic extremism" which has been characterised by the, "strospeheric pay of super-managers". This is an extremely pertinent point to make because it relates to the intellectual frame of this thesis, that is, the issue of executive remuneration (which was broadly framed by the Greenbury committee) reaches well beyond the immediate field in which it is located (indeed research presented in section 2.3 identifies high corporate pay as a direct cause of increasing inequality).

Proponents of high pay insist that without it, only inherited wealth would exist, therefore high pay actually contributes to social justice. The belief is that without examples such as Sir Richard Branson, or indeed even Sir Richard Greenbury, (the embodiment of Kerr & Robinsons (2011: 158) “bootstrap boys”), people in the UK would be bereft of role models and therefore lack incentives to ‘better’ themselves. For instance, in his infamous ‘cornflakes’ speech the Mayor of London, Boris Johnson MP, remarked on the common depiction of ‘*homo economicus*’.

“I stress: I don’t believe that economic equality is possible. Indeed, some measure of inequality is essential for the spirit of envy and keeping up with the Joneses, that is like greed, a valuable spur to economic activity” (Johnson, 2013: 8).

These beliefs make assumptions about human nature which are simplistic and irrational. It assumes the condition of envy as a natural condition of man and that the very notion of ‘bettering’ one’s self is located in increasing ones property rights, but often the inverse may be true. For instance, “economic growth, once the great engine of progress, has in rich countries largely finished its work” (Wilkinson & Pickett 2010: 5). The authors use large scale empirical evidence to draw the conclusion that health and happiness are actually decreasing in developed economies, and that societies which have greater inequality are actually bad for everyone in them, including elite groups.

The central issue here is that ‘merit’ is a contentious subject inasmuch as it cannot be disentangled from its social origins. How much of one’s achievements are attributable to effort and intelligence, which itself are arguably themselves, socially constructed concepts? The logic of due dessert discriminates between those whose effort ‘we’ value and those ‘we’ do not (who ‘we’ constitute is quite another debate and shall be left to one side). Merit is not founded on whether an individual has necessarily contributed to the social good, if this was the case the New Economics Foundation suggest that a hospital cleaner should be remunerated at ten times the rate they currently receive for their labours (Lawlor *et al.*, 2009), instead merit is a sociologically derived concept with a historically formed, “representational truth” (Maclean *et al.*, 2015a: 19) based on, “its faithfulness to detailed evidence and logic underpinning its interpretation” (Maclean 2015:a 19). In other words, merit cannot be uprooted from its social origins, and its ascription is based on the ability to evaluate it.

The central issue therefore, is that there is no accurate system which has been devised to measure merit as Miller (2010: 87) identified that, “basing rewards on merit would require a determination of each individual’s ‘subjective effort’ including their use made of

opportunities”. Essentially, there is a problem of distributive justice which is two dimensional. First, to what extent should individuals benefit from their efforts and secondly, to what extent is their ‘being’ a social construction based, in part, on the collective efforts of others (Berger and Luckmann, 1966). Hayek, noted this,

“Though most people regard as very natural, the claim that nobody should be rewarded more than he deserves for his pain and effort, is nevertheless based on a colossal presumption. It presumes we are able to judge in every individual instance how well people use the different opportunities and talents given to them and how meritorious their achievements are in light of all the circumstances that might of made them possible” (Hayek, 2013: 97).

He goes on to say, that presuming to know all that guides a person’s actions and to use this in determining merit would be the exact opposite of a free society. The more relevant determinant of remuneration should be the value they offer to shareholders, as an individual’s merit cannot be determined and in any case would require an objective assessment which would infringe on individual liberty and freedom. Therefore the concepts of merit and liberty sit diametrically opposed to one another (Hayek 2013).

The importance of how the British ruling elite view merit is central to the thinking underlying pay and performance. In the UK the general mood has never been egalitarian nearly everyone thought that some people were *better* than others (Young, 1958). The 1944 Education Act, which offered higher education to individuals with high intellectual potential regardless of class and simultaneously opened up a system of scholarships enabling students from less privileged backgrounds to attend university. The irony of these reforms is that it made it increasingly justifiable to reward the ‘winners’ in business, on the basis of the [apparent] existence of equality of opportunity. The relationship between capital(s) and education was discussed *inter alia* in section 5.9. Apparent equality of opportunity, has developed into a strong justification for increasing levels of remuneration and is part of our popular culture as Committee member 10 explained,

“There is very sadly an existing belief that top executives are saviours. They are going to work wonders for your company. They are made out to be whatever you read in the press, either a hero or a villain, whether he’s a football manger or a chief executive. So if you’re going to cast people in that ridiculous mould this [points at Figure 16] tends to go with it!”

The explanation for the '*ridiculous mould*,' which characterises some as winners and others as losers cannot be disinterred from the socio-political events of the previous twenty years and the associated historical narrative. Indeed Bourdieu's concept of habitus (Bourdieu 1984) is on no doubt relevant, in so much as the *mould*, can actually be characterised as a schema or set of thought processes against which behaviours referenced.

Successive governments since 1979 have sold a pro-business, monetarist doctrine which states in order to increase the rate of growth (and growth is always perceived as beneficial in a wider sense? See Wilkinson and Pickett (2009) for a critique of this stance) we must let individuals prosper and their wealth will trickle down. This principal of social mobility is often used to justify pay differentials (Lawlor *et al.*, 2009). However based on evidence presented in Table 10 then on the surface, the doctrine of merit may have led to somewhat of a 'trickle up effect' as opposed to the inverse. Indeed this suggestion is supported by research conducted by former Greek Prime Minister and economist Yanis Varoufakis (2015: 135) who states, "all empirical evidence conspires against this [trickle down] hypothesis, put simply it never happened". It is of course beyond the scope of this chapter to debate the relative merits of Hayekian economics, but never the less it is relevant to note the centrality of political ideology in the decision making of the time and also, the way in which popular concepts have been harnessed to achieve certain ends (this is also the case in respect of the analysis of contemporary governance texts outline in chapter 4).

Ironically, Tony Blair's' [presumably well-intentioned] commitment to meritocracy outlined in his influential 1997 treatise "New Britain" has facilitated higher levels of remuneration for an elite few, under the banner of merit⁷¹. The corporate elite can now justify their rewards as deserving, based on talent, with achievements harvested on a level playing field in which they have competed against everyone else. This of course can be proved, both empirically and theoretically, to be an extremely questionable assertion. The idea that pure equality of opportunity exists, would only be the case in a totalitarian state and would require, "the control of the whole physical and human environment of all persons" (Hayek, 2012: 85). Therefore the neoliberal mirage of equality of opportunity leading to the collective myth of a 'meritocracy' was harnessed by Greenbury to justify performance related incentives on the basis it benefited owners and directors alike.

One of the by-products of merit, is that a social revolution is being driven by harnessing schools and universities' ability to sieve people according to education's narrow bands of

⁷¹ New Labour's commitment to 'meritocracy' is stated in page 173.

values (Young, 2001). Bourdieu and Wacquant (1998: 5) highlight the, “myth of the ‘school as liberating force’ guarantor of the triumph of ‘achievement’ over ‘ascription’” and that, “educational institution [are] in the true light of its social uses, that is, as one of the foundations of domination and of the legitimation of domination.”. Characterised in this manner, the concept of merit is at the very root of the system of domination and therefore the Greenbury provisions are an archetypal structure of domination and an exemplar of a self-serving structure of inequality. Furthermore, loyalty to the concept of merit has created a self-confirming *business meritocracy* which has the ability to reproduce itself,

“The business meritocracy is in vogue. If meritocrats believe, as more and more of them are encouraged to, that their advancements comes from their own merits, they feel they deserve whatever they can get” (Young, 2001).

This common mentality is clearly one explanation for the increases we’ve seen in the application of performance related pay instruments. As Miliband (1969: 41) explains such a meritocracy has been, “grafted to the existing economic system” and “this may be thought desirable but it does not cause transformation to a different system”. The systems of values and belief enshrined in the Greenbury report have become so taken for granted, so ingrained, that not to subscribe to these beliefs is to be dismissed as part of the extremist fringe. Suddaby *et al.* (2014) discussion of *historically sedimented narratives* presented previously in this chapter is of no doubt relevant to this phenomenon, as is Bourdieu’s notion of habitus (1984). What Greenbury did was contribute to the creation of objective mechanisms, (such as merit, superior value, increased performance and so forth) which enabled elite groups to maintain monopolies on capitals, “nothing is demanded more absolutely by the political game, than the fundamental adherence to the game [and its logics] itself” (Bourdieu and Thompson 1991: 179).

It is actually very difficult not to concur therefore with Hayek’s position on merit, which in creating a system where rewards correspond to some a pre-determined definition of merit is unsatisfactory. Hayek (2013: 99) illustrates the position thus,

“It would probably contribute more to human happiness if, instead of trying to make remuneration correspond to merit, we made clearer how uncertain the connection is between value and merit. We are probably all much too ready to ascribe personal merit where there is, in fact, only superior value.”

Therefore the key distinction which emerges is that of the divergence between ‘price’ and ‘value’. Arguably, the failure of the Greenbury provisions was in focusing reward on ‘price’ (performance set against market criteria). On the other hand, individual value is almost impossible to determine effectively in large organisations (this was discussed in section 2.6), paradoxically this is something on which both Hayek (2013) (p99) and Piketty (2014) (p330 – p333) both concur. Therefore, the key difficulty the Greenbury committee faced was to reward value without merit would cause public outrage, as was illustrated by the ‘fat cat’ caricature following the privatisation of our national utilities in the early 1990s (German, 1995; Ward, 1995). Similarly, rewarding merit without value will lead to a different controversy as obviously if there is no value to be shared, it is difficult to justify reward no matter how meritorious the individual is perceived to be. The numerous cases of individuals waiving their bonuses following the events of 2007/8 are testimony to that. Therefore if superior value is to be rewarded, to what extent does the director merit the reward? It was the latter which the committees provisions emphatically failed to determine.

Let us suppose, despite the indications otherwise, that the Greenbury committee’s belief in performance related pay is both justifiable on technical level i.e. we can adequately apply the principle of proportionality to it and also, that it’s morally and ethically correct to pay directors many multiples of the average worker’s pay. The further question which then needs to be addressed is, are these directors who we are objectively singled out for large remuneration deserving of these packages, i.e. have they followed the intelligence plus effort equation? Essentially to what extent is their marginal productivity attributable directly to their actions and to what extent do externalities play in determining not only their elevated status, but the subsequent performance on which they’re being remunerated.

The issue of fairness was not focused on over the course of the data collection, but it was clearly a catalyst for the formation of the committee (as identified in section 5.2) and is clearly a criticism of its implied failure. We now live in a society which is more unequal than it was in 1995 (IFS, 2012) characterised by greater income differentials, see Table 10. So in summary, what the Greenbury committee failed to recognise was the extent to which their provisions had wider implications than simply the remuneration of a corporate elite as it has been illustrated the effects are both empirical, in terms of the contribution excessive remuneration made to increasing inequality (Piketty 2014) (Allen 2015) and theoretical, in terms of the principles it championed. They made a number of normative assumptions about how people behave, about justice and about desert.

6.10 Conclusion

This chapter addressed the research question relating to how successful the Greenbury reforms were in mediating the relationship between pay and performance. The [explicit] intentions of the Greenbury committee were to ensure that pay was more clearly aligned to performance and to moderate what were perceived by the public to be, extremely high levels of remuneration for the corporate elite. The provisions failed on both counts as one member summarises,

“in terms of pay itself, I don’t know what, if any, impact the publication of the report had in constraining excessive pay packages” (Committee member 4).

The principle criticism levied against the Greenbury committee is that its provisions have neither moderated excess nor aligned pay with performance. Furthermore, where there has been decent corporate performance and directors’ salaries have risen it has not been coupled with rises in pay for the average worker (the ratio has actually increased – see Table 10 and Figure 16). Therefore the effects of the three principles of accountability, transparency and performance on which the provisions are based⁷², were fundamentally misinterpreted by the committee, leading to the unforeseen consequence described. It corroborates Bebchuk and Fried’s (2004) theory, inasmuch as the Greenbury inspired remuneration schemes contributed to the *camouflaging* of executive remuneration.

This chapter argued that a *new finance capitalism* (Davis, 2008; Davis, 2009) has evolved where financial organisations have acquired large shareholdings in Britain’s largest companies, but then failed to adopt the responsibilities of ownership (Tilba and McNulty, 2012). A small handful of institutions have become significant corporate owners but nevertheless abdicate their wider responsibilities of holding management to account as one of the advisors notes,

“In a sense the mythical image of the engaged shareholder is a useful one to have, but in truth it just doesn’t apply. We still have this Victorian notion of the chap in his mansion overseeing the mills him and his father built... its charming...”

(Committee member 10)

The justification for the Greenbury report was referenced as “public concerns” (Greenbury, 1995: 9) about directors pay, but the outcomes it induced, facilitated by increased

⁷² See: Greenbury 1995 p11 section 1.16

transparency and all that goes with it, seems to have led to the outcomes which are the polar opposite of what the committee were trying to achieve in so much as it helped to lay the foundations for the concerns we have today about high pay. The reasoning behind this is theorised as being attributed to the over simplified abstraction of merit induced by the transparency created by the Greenbury provisions. This corroborates the work of both Messner (2009) and Butler (2005) in suggesting there are limits to transparency. This is an example of what Messner (2009: 919) calls, “the restrictive nature of contemporary management and financial accounting practice and for the partial form of accountability relations that these practices imply”.

The committee perpetuated historically sedimented narratives pertaining to transparency, agency and merit. Theoretically these concepts are an outcome of the contingent historical process from which they have emerged (Suddaby *et al.*, 2014). Merit for instance was an issue historically derived, but temporally nested in the scandals (described in chapter 5). The [mis] interpretation of performance related pay, and the principles on which it's based, has had, and still is having, enormous social implications.

Chapter 7 – Corporate governance regulation: a paradox of power?

7.1 Introduction

This chapter examines patterns of change in UK corporate governance between 1995 and 2012. It explains why and how these patterns have developed and the theoretical and practical implications of change. The first section of this chapter examines the antecedents of structural changes of boards of directors in the sample.

When undertaking analysis of change this chapter remains loyal to key theoretical approaches covered in previous chapters in order to provide coherence. This is achieved by harnessing institutional theory which was introduced in section 2.9, Bourdieusian concepts and theory explored in section 2.8. The coherence of this approach is justified in so much as, “institutional theory provides a bridge for students of organizations to link to the insightful work of Berger [and] Bourdieu” (Scott 1987: 495). As will be illustrated, Bourdieu’s stance on power is closely related to the structural design of fields and how this leads to coercion (Oakes, Townley & Cooper, 1998) and therefore the importance of institutional structures, and the behaviour of actors in fields, are inextricably related.

This chapter examines whether trends in structural change are caused by normatively constructed concepts, such as transparency and merit (debated in chapter 6). It will be argued that these patterns lead to homogenisation as a result of the interplay of structure, texts and behaviours which has led to a dominant discourse or ideology and “the ability of dominant groups or classes to make their own sectional interests appear to others as universal ones” (Giddens, 1979: 6). Therefore the ideas outlined in chapter 4 in particular, will be elaborated upon and developed over the course of this chapter.

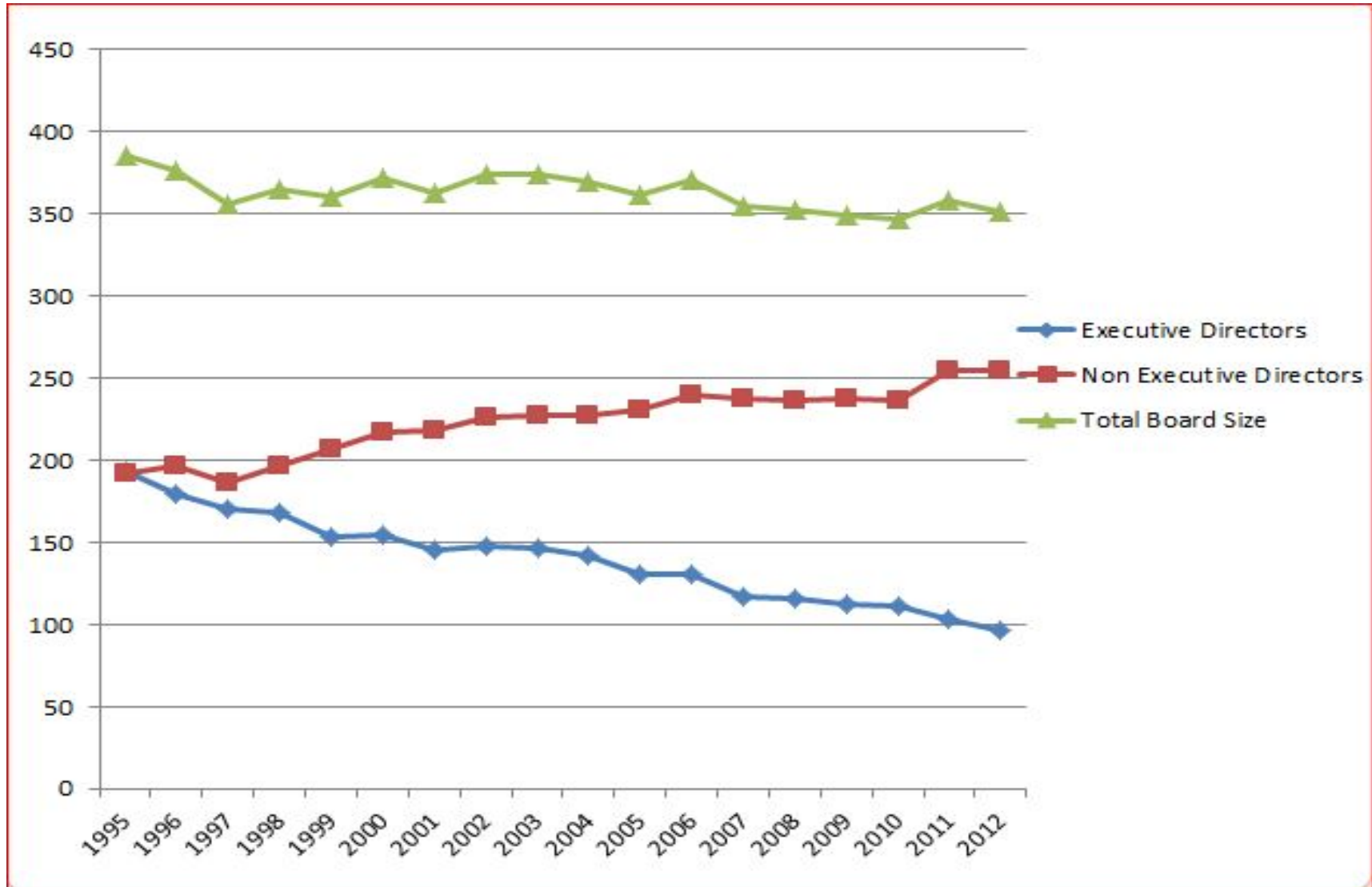


Figure 21: The size and composition of FTSE 100 boards 1995 – 2012: Source: database

7.2 Board structure & power

One of the empirical observations from the data is that there are fewer executive directors in the sample in 2012 than there were in 1995 (97 versus 236, see Figure 21). This change is profound and has implications for how governance is, or should be understood with reference to the theories outlined in section 2.2 and 2.7.3. This finding is a key empirical contribution of this chapter. It seems that increases in the number of NEDs, does not constrain executive pay and from the oral history data collected, it seems that the Greenbury provisions, albeit alongside a host of other factors previously debated, may have been a driver in determining that change.

Other studies have outlined similar trends, however, none have identified such an up to date dataset. Notably Guest (2010), highlighted a similar trend, albeit using a different sample, between 1983 and 2002, citing the Cadbury Committees' recommendations as a key driver of increasing non-executive numbers. The study found that boards which had more NEDs on, tended to have smaller increases in executive pay, than those with less NEDs. However, data from this study illustrates, that despite increasing numbers of NEDs, executive pay has not been constrained in the same way that Guest (2010) observed. This is illustrated by cross referencing changes in board composition (Table 15 on page 158) with the growth of executive pay (Figure 16 on page 204). This divergence can possibly be attributed to a number of differences in methodology. First, different longitudinal samples have been used. None of the studies which Guest (2010) references, collected data after 2004, and it is after this point, that some of the largest increase in executive pay have been observed. Secondly, the Higgs report, published in 2003, recommended the board should be composed of a majority of NEDs which may have contributed to the changes in board composition. Therefore these previous studies, do not account for recent changes in the variables under examination.

The assumption which was presented by Greenbury members, can be derived from Weber's (1930, 1946, 1947) discussion of the evolution of bureaucracy. It is that this change has occurred as a result of the evolution of a *more effective form of organisation*, but is this assumption of causality actually correct. One of the central problems of organisational theory more generally, is how to describe the conditions that give rise to structures (Meyer & Rowan 1977). There are a number of implications and possible causative factors of this dramatic decline in executive numbers and these will now be discussed.

Given that there are fewer executive directors running Britain's top companies, than there were in 1995, intuitively it can be deducted, given the assumptions of agency and managerial hegemony theorists laid out in chapter 2, that this cohort of executives, are proportionally more powerful as a result. This finding reinforces strongly the argument that a small number of executives running Britain's largest companies hold an enormously disproportionate share of corporate power (Maclean *et al.*, 2006; Maclean *et al.*, 2010). It also resonates with some of the institutional approaches to elite theory which are addressed in a later section of this chapter (see for instance Zald and Lounsbury (2010) and Reed (2012)).

Do organisations in the sample actually function according to their theoretical blueprint outlined above? Are these patterns simply a *better* form of bureaucracy in a Weberian sense, and what has caused their emergence? Are boards of directors controlled by the "the full-time, better informed, and more experienced corporate management" (Pettigrew, 1998: 200). These changes certainly increases the structural power of non-executives (Conyon and Leech, 1994) and theoretically increases the boards influence in matters of financial control and remuneration (Pettigrew, 1998). However this structuralist approach to analysis is maybe rather distant and a level of analysis which is more contextual, focusing on the dynamics in play in particular settings, is perhaps more appropriate.

As identified in section 2.2, one of the key debates surrounding modern corporate governance is where the locus of power lies. Managerial hegemony theorists suggest power lies with the executive component of the board (Mace, 1971; Pettigrew, 1992; Pettigrew, 1998) whilst an important stream of work led by Stewart Clegg which suggests that power is a, "capacity premised on resource control" (Clegg, 1989b: 99) and executives disproportionately wield power as a direct result of their, "command over resources" (Maclean *et al.*, 2010: 328). Despite the strength of this post-Bourdieuian theoretical thread, there are equally a range of factors which complicate this proposition, many of which were debated in chapters 2 and 5. For instance, Pettigrew & McNulty (1995) suggest a tripartite conception of power and influence to the extent that the ability to mobilise power is mediated by a combination of "will and skill" (Pettigrew & McNulty 1995: 845), context, structure and the source of power. Therefore given the relational nature of power previously discussed it's unconvincing to support the purely structural argument that executives hold the dominant source of power and resultantly, suggest that the structural changes identified in Figure 21, necessarily have an effect upon board power dynamics.

In terms of research examining the relative power of directors, much seems to be dependent on the definition of power one wishes to embrace, for instance a study by Veprauskaitė and Adams (2013: 238) found that board composition did not affect CEO power, “and therefore no discernible effect on corporate performance”, whereas other scholars such as Adams *et al.* (2005) and Combs, Ketchen, Perryman and Donahue (2007) suggest that board composition does influence CEO power. If indeed it is the executive component on the board use their power to make strategic decisions, then those decisions tend to more speculative (Adams *et al.* 2005). In light of these conflicting perspectives the devil is certainly in the detail and it seems perhaps a unifying approach is difficult to determine. Possibly a more universally appropriate definition of power is based on a Bourdeusian perspective inasmuch as power is predicated on *command over the various forms of capital and resources* and these may be at the disposal of elites more readily as a result of the social structures yielding enduring social constraints (Clegg 1989b, Lukes 2005).

The relationship between the trends observed and organisational power requires more research, however, an appealing position is that of Clegg (1989b) who suggests power is wielded through a specific mechanism, “the dichotomy of the concepts of ‘power’ and ‘authority’ around the axis of legitimacy” (p98). In other words those who hold formal elected office, CEO’s for example, have the power and authority to make strategic decisions, “premised on discretionary control of strategic contingencies of resource dependencies” (Clegg 1989b: 99). This perspective is loyal to Bourdieu’s stance inasmuch as it identifies that power is most effective, when there is no visible conflict (Oakes *et al.* 1998), and as a result of their [directors] legitimacy, direct coercion is much less problematic to achieve. The idea of the legitimising effect of changes in board composition, are discussed subsequently in section 7.4. It is therefore highly problematic to determine power empirically (although many scholars have done so) based on the observation that it’s a highly relational concept (Phillips *et al.*, 2006).

Consider the case of Barclays, one of the largest banks in the UK by capitalisation. In 1995 Barclays had a split of 7 executive directors and 7 non-executive directors, but by 2010 it had just 2 executives (Bob Diamond and Chris Lucas) and 11 non-executive directors. Below this Barclays have a ‘Group Executive Committee’⁷³, to which the provisions of the Combined Code of Corporate Governance are not applicable. Barclays describe their position thus,

⁷³ See page 12 of the 2010 Barclays Annual Report.

“The executive Directors, Bob Diamond, Chief Executive, and Chris Lucas, Group Finance Director, are full time employees of the Group and form part of the senior management of Barclays. They are responsible for the day to day management of our businesses, supported by the Group Executive Committee, which Bob chairs.” (Barclays PLC, 2010: 150)

Barclays are only an example, across the sample there seems to be a transition for a unitary board structure in the UK to a two tier system of governance. This change in formal structure is stark, but does it make executive directors more powerful as a result and what has driven it.

The transition was noted by many members of the Greenbury committee and one attributable factor may be the increasing homogeneity between UK and US leading companies as Committee member 3 points out,

“There has been a metamorphosis here from the British structure [in the 1990s] to the American structure”

Table 14 illustrates Is Barclays, which is one of the UK’s largest banks, certainly in terms of capitalisation, directed by just two individuals? What are the implications for accountability and decision making at the bank? Furthermore if the non-executives are unable to perform their agency role and monitor the activities of the executives, to what extent does the ‘funnel’ of a two executive board restrict this activity? If there is a move to a two tier system of governance, then do the regulations need to keep pace with these structural changes?

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| RBS | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 9 | 8 | 5 | 5 | 5 | 7 | 7 | 6 | 6 | 5 | 4 | 6 | 6 | 3 | 3 | 2 | 2 | 2 |
| No of NEDs at year | 11 | 12 | 9 | 10 | 9 | 10 | 13 | 12 | 13 | 13 | 10 | 11 | 11 | 5 | 7 | 8 | 11 | 10 |
| Barclays | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 7 | 6 | 5 | 6 | 5 | 5 | 5 | 4 | 4 | 6 | 6 | 5 | 5 | 4 | 3 | 2 | 2 | 2 |
| No of NEDs at year | 7 | 7 | 7 | 6 | 7 | 8 | 8 | 9 | 8 | 8 | 10 | 10 | 11 | 12 | 10 | 11 | 10 | 10 |
| Prudential | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 6 | 5 | 5 | 4 | 4 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 7 | 6 | 6 | 7 | 7 | 7 |
| No of NEDs at year | 6 | 6 | 6 | 7 | 8 | 7 | 6 | 7 | 7 | 8 | 8 | 8 | 7 | 9 | 8 | 10 | 10 | 10 |
| Land Securities GP | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 6 | 5 | 4 | 4 | 4 | 4 | 5 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 4 | 4 | 5 | 3 |
| No of NEDs at year | 3 | 3 | 5 | 4 | 4 | 4 | 4 | 6 | 5 | 6 | 7 | 7 | 6 | 8 | 6 | 7 | 7 | 7 |
| Legal and General | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 6 | 6 | 6 | 5 | 6 | 7 | 7 | 7 | 6 | 6 | 6 | 6 | 4 | 4 | 4 | 4 | 4 | 4 |
| No of NEDs at year | 7 | 7 | 6 | 8 | 6 | 8 | 7 | 7 | 9 | 8 | 7 | 7 | 7 | 7 | 8 | 7 | 8 | 8 |
| Schroders | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 6 | 5 | 6 | 8 | 8 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 3 |
| No of NEDs at year | 6 | 6 | 6 | 6 | 7 | 8 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 6 | 7 | 7 | 8 | 8 |
| 3I Group | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 4 | 4 | 5 | 6 | 5 | 6 | 6 | 6 | 4 | 4 | 4 | 3 | 3 | 3 | 2 | 2 | 2 | 3 |
| No of NEDs at year | 7 | 7 | 6 | 6 | 5 | 7 | 6 | 8 | 6 | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 6 | 6 |
| Standard Chartered | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 10 | 9 | 8 | 8 | 8 | 7 | 7 | 7 | 7 | 7 | 6 | 4 | 4 | 4 | 5 | 5 | 5 | 6 |
| No of NEDs at year | 6 | 7 | 7 | 9 | 8 | 10 | 11 | 11 | 9 | 9 | 9 | 9 | 11 | 9 | 12 | 11 | 11 | 13 |
| HSBC Holdings | | | | | | | | | | | | | | | | | | |
| No of EDs at year end | 7 | 5 | 4 | 6 | 7 | 8 | 8 | 8 | 9 | 9 | 7 | 5 | 3 | 6 | 6 | 6 | 5 | 3 |
| No of NEDs at year | 14 | 12 | 11 | 14 | 13 | 14 | 13 | 13 | 13 | 14 | 15 | 16 | 14 | 16 | 15 | 15 | 13 | 13 |

Table 14: The size and composition of financial firms 1995 – 2012 Source: Database

This research finds that a smaller cohort of corporate elites (see Figure 21 and Table 15) is responsible for increasingly large corporations (see Figure 19). Congruently, notable research examining membership of the field of corporate elites between 1998 and 2003 identified a small number of ‘dominant corporate agents’,

“a very small number of dominant agents, operating at the intersection of the life-worlds of business, politics and governance, wield extraordinary amounts of corporate power and social influence” (Maclean *et al.*, 2010: 150).

This perspective is similar in foundation to the traditional agency perspectives on power (Pettigrew, 1992; McNulty and Pettigrew, 1996; Pettigrew, 1998). However, it may be that the ‘corporate power’ propagated by ‘dominant agents’ is restricted to power over certain issues, that although the *weight of power* (symbolic capital, cultural capitals for instance) is still with the executive members of the board, the *locus of power* (positional capital, knowledge capitals for instance) seems to be below board level in so much as the function of the board has changed over time. In such a way power is exercised very much on a contextually specific basis, and as such attempts to regulate issues related to corporate governance are ineffective by the fluidity of contextual boundaries.

“it’s now far more like the European or American model of separation – that’s accepted... they now have the executive committee which makes the board less relevant. That’s how we operate now, we run the business and we’ll report to the board. The board is just something we [executives] have to report, oversight and occasionally they might give us some useful inputs... It used to be the board running the company, not anymore.” (Committee member 10)

The ability to transmute (Bourdieu 1986) certain types of capital to other forms of capital and therefore exert power is mediated by structure. Put simply, if decisions are being made at board level, then only directors who sit on the board will be able to influence these decisions. Once this structural precondition is met, then theoretically the ability to exert power is mediated by the possession and application of capitals (Swartz 1998). This highlights the multidimensional and ubiquitous nature of power highlighted in the literature by Bourdieu (1984) and Lukes (2005) and reflects the “balance between structural and relational forms of power” (Pettigrew & McNulty 1995: 202). Another member of the committee comments that that the *locus* of power has changed,

“Decisions were always made elsewhere and now you just have that formalised...I personally don’t see anything wrong with that... Now it’s more the management committee that runs the company with a small number of executives on it” (Committee member 3).

Given these empirical observations, a suggestion for future research would be to examine the types of decisions that are being made at both the management board and the executive board within the organisation and analyse how capital is transmuted in the exertion of power. In such a way we would be able to get a more holistic feel for the relative effectiveness of the combined code in reaching its stated objectives. In particular the extent to which the smaller cohort of executives in our sample are actually more powerful as many scholars have suggested, or if the locus of power has moved therefore permitting them less involvement in organisational activities. This question corroborates Zald & Lousbury’s (2010: 974) call for the, “need for a more nuanced and multidimensional approach to power, as well as efforts to measure how actors and practices are embedded in broader cultural structures that take shape in the context of [specific] fields”

Given the apparent de-facto transition from unitary board structures to a more European or American model which have just been discussed, it is important to address why these changes have taken place and one particular school of thought is the Greenbury provisions may have assisted in driving this change and it is this argument which is now discussed.

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total EDs | 6.8 | 6.4 | 6.0 | 6.0 | 5.4 | 5.5 | 5.1 | 5.2 | 5.2 | 5.0 | 4.6 | 4.6 | 4.1 | 4.1 | 4.0 | 3.9 | 3.7 | 3.6 |
| Total NED s | 6.8 | 7.0 | 6.6 | 7.0 | 7.3 | 7.7 | 7.7 | 8.0 | 8.1 | 8.1 | 8.2 | 8.5 | 8.5 | 8.4 | 8.4 | 8.4 | 9.1 | 9.0 |
| Total | 13.75 | 13.43 | 12.71 | 13.04 | 12.86 | 13.29 | 12.96 | 13.36 | 13.36 | 13.18 | 12.89 | 13.25 | 12.68 | 12.57 | 12.46 | 12.39 | 12.79 | 12.54 |

Table 15: The average number of executives and non-executives in FTSE 100 boards between 1995 and 2012 Source: Database

It's been illustrated that the executive cohort is much more concentrated today than it was back in the early 1990s and if the assumptions of managerial hegemony theorists are correct the power of this small cohort should conceivably be much greater, assuming the 'command over resources' (and/or capitals) definition of power, purported by Clegg (1989b) and then developed by Maclean *et al.* (2006, 2010) outlined previously.

The implication of a smaller number of more powerful people, who are increasingly highly remunerated and who direct organisations which are becoming increasingly large (see Figure 19) has a number of important implications. The gravity of these changes is even more profound given the observation that the power of executive directors is even further magnified as a result of the inconsistent voting patterns demonstrated by corporate owners (Goergen & Renneboog, 1999). Therefore on one hand you seem to have a breakdown in the principal - agent model of governance leading to the abolition of systems of structural and procedural accountability, "the principal-agent view of the relationship between institutional investors and corporate managers is more assumed than demonstrated [in practice]" (Tilba & McNulty, 2012: 165). Whilst on the other hand the incumbent directors of companies in the sample are increasingly structurally powerful and increasingly highly incentivised (see chapter 6). The directors who occupy these, "strategic command posts" (Zald & Lounsbury, 2010: 970) seem therefore to have an increasing ability to transit from the corporate field of power to the field of power (see chapter 5 for a clear definition of the various fields, including the field of power).

7.3 Institutional change in corporate governance

Institutional theory was presented in chapter 2 of this thesis, which was subsequently built upon in chapter 4 when the idea of the institutionalised evolution of corporate governance texts was presented. In this section institutional theory provides a theoretical framework to help explain why the structural changes previously noted may have taken place.

Chapter 4 illustrated that one of the key insights institutional theory provides is the way in which the corporate governance texts, may have contributed to the conscious or unconscious mimicry of institutional models. Chapter 4 highlighted the relevance of intertextuality in forming a dialectic relationship between codes of corporate governance and the 'best practice' reports produced. Certainly this process seem to have perpetuated many "rationalised myths" (Meyer, 1977: 128) pertaining to the issues of remuneration, ownership and power previously discussed in chapter 6. In all of these examples, rationalised thought has been dominant, despite the structural and procedural 'realities' debated in this chapter and previous chapters.

As Meyer and Rowan pointed out, formal structures are deeply ingrained, “and reflect widespread understanding of social reality” (Meyer & Rowan, 1977: 343). Perhaps nowhere is this more evident, than represented by the relationship between shareholders and owners. Related to these structures are myths of legitimisation based on principles of transparency, accountability and merit. The institutionalised nature of corporate governance reform laid out in chapter 4, actually serves incumbent elites by legitimating their positions (Maclean *et al.* 2006). The invisible hand of the market is seen at once to be a universal remedy and an ‘independent’ arbiter, just as data presented in this chapter 6 and others has contributed to provide explanation and analysis detailing how these myths are increasingly invalid. Many of the concepts debated previous chapters are perpetuated by an ‘iron cage’ in a neo-Weberian sense, where rationalised myths about the nature of corporate governance are fostered and built upon (for example through its texts).

From the data collected as part of this study, the size and composition of boards have tended to mimic each other. Within the sample of 29 companies only Standard Chartered and Pearson, with 6 executives and Prudential, with 7, have retained a significant executive presence on their board of directors, whilst the remainder of companies have followed a similar trend in terms of a reduction in the executive presence on their boards. This has led organisations to become more [structurally] homogenous. This structural has moved far beyond the Higgs (2003) requirement that boards should be composed of 50% of NEDs, so the claim that boards have evolved as they have based on the requirement to comply seem weak. The financial companies who constitute the sample are presented as indicative of this trend, see Table 14. This may be a result of the field of corporate governance becoming more established (i.e. certain benchmarks have been established, such as Higgs (2003), but also a dominant narrative created) and thus the, “inexorable push towards homogenisation” (DiMaggio & Powell, 1983: 148).

In a similar fashion the legitimacy purported by transparency, as discussed in chapter 5 and 6, leads to pre-determined expectations of what may or may not be appropriate i.e. coercive isomorphism. In such a circumstance all companies in the sample are susceptible to the same corporate governance framework, therefore DiMaggio & Powell (1983: 150) suggest that this may be attributed to “necessary organisational controls to honour legal commitments” and the “ubiquity of certain fiscal years, annual reports and financial reporting requirements” may all play a significant part in structural change.

The relationship between structure and agency proposed above has been discussed at length by Giddens (1979), but perhaps the most important observation is how an elite group seems to have contributed to designing organisational structures which have become accepted and unquestioned over a long period (Katz, 1971). As was stated in chapter 5, from a neo-institutionalist or post Marxist perspective the intervention of the Greenbury committee (and indeed previous to that the Cadbury committee) is an example of how elites guide and control the social system. This assertion is consistent with Bourdieu's work on fields, power and habitus examined in the fifth chapter. Furthermore this structural change seems to have occurred largely unnoticed and the implications undebated. A wide ranging literature search of contemporary media archives seeking to debate the changes has proved fruitless.

There are also other ways in which institutionalised practices may explain the trend noted. The filtering of personnel is a mechanism for encouraging normative isomorphism (DiMaggio & Powell, 1983). With this in mind we can triangulate the data illustrating the homogeneity of background of the executives (see Table 9) with some of the comments describing, "a village of people who went to the same university" leading to a lack of, "material independence" (Committee member 2) to illustrate that directors are, "filtered on a common set of attributes [and] tend to view problems in a similar fashion, see the same policies practices and structures as normatively sanctioned and legitimated" (DiMaggio and Powell 1983: 153). This rationale for such thought is that executives consciously attempt to mimic those organisations and people in the field whom they perceive to be successful (Robken 2004). Adherence to such norms is an example of isomorphism (both mimetically and coercively) resulting from the increased transparency, "the external world is actually quite brutal. You don't give peoples addresses away, but you're actually telling people everything about them... people will judge [as a result]" (Committee member 10). This process co-exists with the increased professionalization, as a result of normative pressure. This is defined as "the collective struggle of members of an occupation to define the conditions and methods of their work" (Di Maggio and Powell 1983: 152) to "control the production of producers" (Larson 1977: 49) and to "establish legitimisation for their autonomy" (Di Maggio and Powell 1983: 152). This relates well to many of the debates that took place in chapter 5 and as such, adds credibility to its findings.

In terms of remuneration, institutional theory offers an insight into how the filtering of personnel in the ways observed leads to the collective belief in the value placed in meritorious

behaviours and outcomes (as debated in chapter 6). As well as having benefits for the individuals concerned, normative isomorphism in the context of personnel makes it easier for organisations to transact with their environment. There is a certain executive solidarity, kinship and respect which smooths transactions in the field of power, in this respect normative approaches to merit, as epitomised by the view, “that the chief executive got there because he knows what he’s doing and he’s a capable man” (Committee member 1) provides legitimacy for decisions, particularly in respect of remuneration.

The structural changes observed in boards of directors are an illustration of the continuing homogenisation of organisational structures. It also points to the predominance of accumulation processes in modern society (as Marx predicted in ‘Capital’ and as Piketty illustrated in his study of the same name). In such a way structures and frameworks are designed in this sense to yield the highest return on capital, both for the dominant elite and for the organisations they control. From the data observed, key elites guide and control the system by the acquisition and incumbency in key, “strategic command posts” (Zald and Lounsbury, 2010: 970) thereby allowing them to intervene in key decisions, of which the Greenbury provisions were a case in point, thereby setting the course for years to come (as illustrated in chapter 4).

In the case of the Greenbury provisions, its recommendations have since been elevated to statute. From a neo-institutionalist perspective, structural change noted therefore is both a, “generative mechanism” and, “structure of domination” (Scott, 2014: 189). In such a way the evolution of corporate governance, can be characterised as an instrument of domination deployed by elite groups in the struggle to monopolise capitals. Scott’s (2008) typology of elites resonates strongly in the sense that structural changes have been achieved through the incumbency of strategic command posts in various domains. Using Scott’s typology, ‘expert’ elites collaborated with ‘coercive’ elites in the case of the Greenbury committee. For example the report was written over the course of three weeks in June, by a leading civil servant who described his role thus,

“they looked around for some fellow who had lots of civil service experience of writing white papers and experience at a senior level and it just so happened that I had taken early retirement and I was just back from Turkmenistan [advising the president], so I was fingered to go” (Committee member 8)

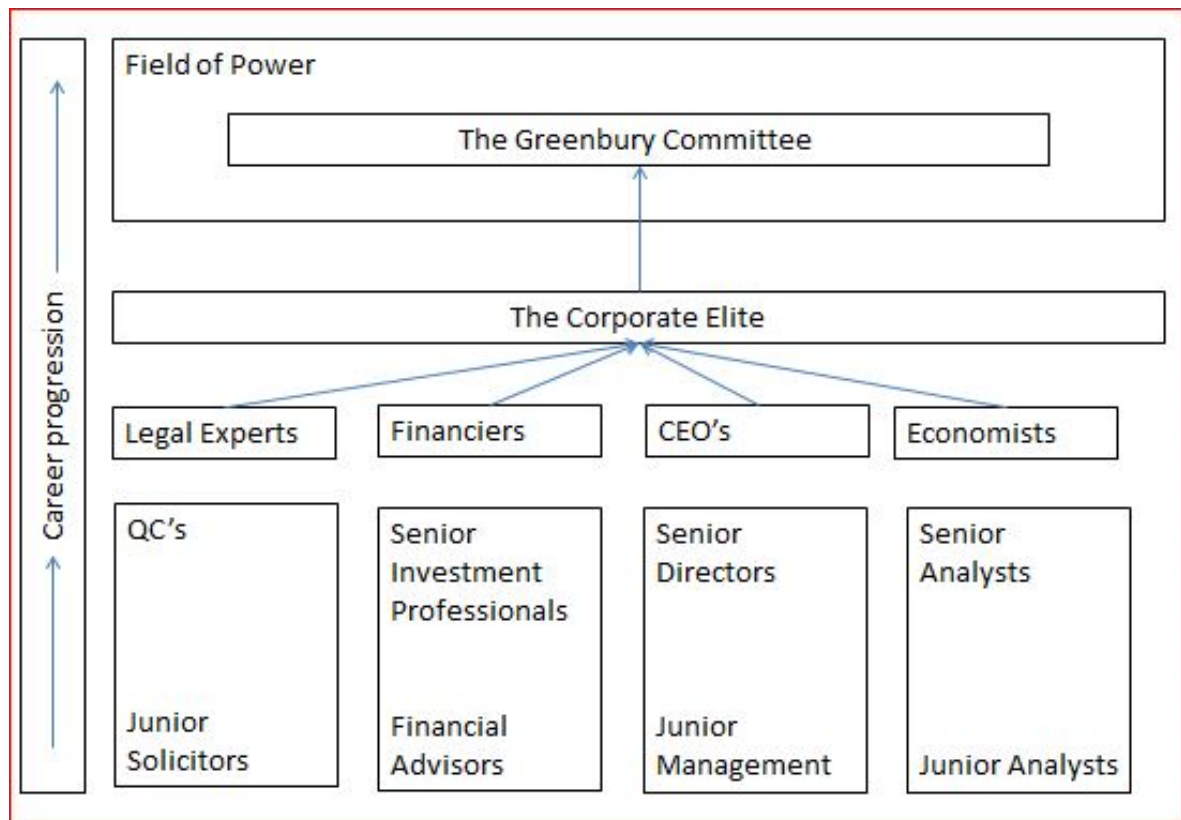


Figure 22: The indicative stratification of the corporate field (adapted from Maclean *et al.* 2006).

The role of other elites on the committee was rather different; there was an expert on remuneration, a public relations expert, an investment expert who “*was the representative of the representatives of a huge slug of British equity*” (Committee member 3). So there were a wide variety of elites who came together to ensure their sectional interest were upheld (as described in chapter 5). A key point to make is that these weren't just *any* experts; each individual on the committee was at the very pinnacle in the ‘field of power’ in their specific field (See Figure 22 which figuratively illustrates this). This resonates with Bourdieu’s depiction of a hierarchically stratified field constituted by dominant and subordinate positions (Bourdieu & Waquant, 1998). In the situation depicted in Figure 22, the fields are divided into sub strata consisting of a particular expertise within the meta field of corporate class. The purposes of Figure 22 is to illustrate how Bourdieu theorised the stratification of a field is conceived, not to identify every profession in that field.

It's illustrated in Figure 22, that as agents progress their careers, they may be afforded the opportunity to obtain membership of elite groups by the harvesting and subsequent dispersion of capitals (as described in chapter 5). As mentioned previously, this particular type of

structure benefits incumbents but does not necessarily imply co-ordination of collective interests or unifying goals, which may be otherwise diverse (Zald and Lounsbury, 2010), as was the case of the Greenbury committee. Each member had very secular interests and objectives, but at times of critical importance where the design of institutional structures and mutually significant issues were at stake, they came together, collectively reinforced by each other's individual legitimacy, to resolve matters of mutual interest (i.e. remuneration).

7.4 Institutional change and transparent remuneration

The first and possibly most critical point to [re]make, is that there is no disclosure requirement within the combined code for highly paid employees below board level (see chapter 4). They may receive whatever remuneration the directors determine as fair market value and are not required to disclose information related to their remuneration packages or for that matter any other aspect of their employment contract.

There is an argument that the Greenbury provisions *may* have been partially responsible for the changes in board composition noted previously in so much as increased requirements to disclose led to smaller executive presence on the main board, therefore avoiding the disclosure requirements, thus substantively changing the locus of power within companies. Indeed a number of the committee's members suggested this actually may be the case,

“One does hear about companies, if you are in the system, in the network, that would prefer their higher paid employees not to be on the board because they don't have to report their packages. That's a loophole isn't it and you would expect it to be exploited and it has been exploited!” (Committee member 8)

Another member called it *“a very valid assumption”* (Committee member 11) while one member went further and said,

“Its common knowledge that executives don't want to be on boards for this very reason; that their rewards are then hidden” (Committee Member 4)

There seems to be agreement amongst the Greenbury members that being on the board leads to increased transparency, which isn't always desirable for the executive cohort. The scrutiny,

publicity and exposure of not only being accountable to shareholders, but also in the eye of the public is something which is clearly not always welcome,

“I’m sure that the increase in the number of non-execs on boards is because executives don’t want to put their head above the parapet and that’s because people are attacking them...taking that promotion to board level really does put you in the firing line.” (Committee member 2)

Another respondent concurred with this position,

“One of the Greenbury consequences is the cachet of being on the board has diminished because with the cachet comes obligation, it’s always had a legal obligation but it now comes with a social obligation.” (Committee member 12)

The suggestion is that the responsibility executive directors now have has increased because of increased intrusion by the media, but also the increased accountability to politicians for their actions⁷⁴. This is clearly something which is emerging following the financial crisis of 2007 and the bailout of the financial system by the public. Increasingly markets are deemed to be the arbitrator with a loss of centralised power;

“[being an executive director] is a recipe to be called before a whole load of idiots from the House of Commons who will give you a good time because they want to have a bit of publicity, why would you do that, why would you be willing to do that?” (Committee member 2)

Therefore increasingly there are attempts to regulate, control and monitor private sector businesses because the governance is often so poor as a result of the contradictions noted throughout this thesis. The Enterprise and Regulatory Reform Act of 2013 established the Competition and Markets Authority (CMA) which attempts to regulate a range of private businesses who may not be acting in the best interests of citizens. The CMA covers cases ranging from energy pricing to payday lending. These cases all represent some form of market or governance failure. Arguably the very existence of such quangos’ is as a result of the issues outlined in chapter 5 and 6.

⁷⁴ The UK CONLIB government launched a Policy paper to address issues surrounding corporate accountability. See: <https://www.gov.uk/government/publications/2010-to-2015-government-policy-corporate-accountability/2010-to-2015-government-policy-corporate-accountability#actions>

Specifically in the case of executive remuneration, the increased transparency induced by the Greenbury provisions may have played a role in the structural changes previously noted which may paradoxically have led to reduced accountability, which was exactly the opposite of its intended outcome.

However, there has been a policy response in this area. The Walker report of 2009 led to the ‘Project Merlin’ agreement announced on the 9th of February 2011 which stipulated the major UK banks should disclose the remuneration details of the eight highest paid ‘senior executive officers’ below the level of Executive Director (Edwards, 2013). Whether or not the government had specific evidence relating to the disclosure of remuneration which warranted the changes is not known, but the antecedents of the agreement can be found in the Walker Report (2009) which made the recommendation that all “high end” (p113) employees should have their remuneration disclosed in bands. Therefore there is clear acknowledgement about the potential avoidance in disclosing remuneration and a simple response if the company wishes to retain a highly remunerated employee would simply be to move them ‘*below the radar*’ (Committee member 2).

One of the arguments for the increases in remuneration for a smaller cohort of directors are based on the observation they have increased responsibility which requires higher remuneration (Gregg *et al.*, 2012). Evidence from this study suggests that there a smaller cohort of executive directors responsible for increasingly large organisations, this simple statistic is generated by cross referencing the increasing large companies who constitute the FTSE 100, as illustrated by Figure 19 and Table 15, which illustrates there are fewer executives in control of these companies. Therefore logically those who preside over these larger organisations have greater responsibility and therefore require commensurate levels of remuneration. In such a sense these directors may be considered to be worthy of high levels of remuneration [or so the Hayekian argument set out in section 6.9 goes].

Many of committee commented that requirements of the code and increased transparency were not responsible for the structural changes previously noted (in Figure 21). There is evidence that these structural changes may be simply the evolution of a better form of organisation. That in cutting down the number of executive directors, the organisation could cut the amount of bureaucracy and improve the way the board operates.

“Remuneration has got nothing to do with that, that’s it’s an evolution of a better way of running a company. I can tell you, from my experience why, having a lot of executive directors on the board was not a good idea...” (Committee member 11)

Another member agreed with the efficiency argument suggesting, “Old boards were too large and cumbersome and now we’re a reasonable size” (Committee member 3). The suggestion that boards were ‘cumbersome’ implies high levels of bureaucracy and more time devoted to debating a wider range of issues. This is certainly a *different form* of governance but is it necessarily a *better form* of governance?

From the interview data, there is at best mixed evidence relating the relationship between the Greenbury provisions and the subsequent structural changes noted previously. However, the plausibility of this argument still exists and will require more detailed analysis, particularly focusing on the motivations of individual executives, to ascertain if the regulations have contributed to the changes noted.

7.5 Institutionalised growth of annual reporting - Information overload?

One of the themes which emerged from the interview data, is that in 1992 annual reports were concise, easily digestible documents, but by 2012 most annual reports would often run into the 100’s of pages, “the response to an alleged shortage of information has been to produce a flood of it” (Charkham, 2008: 376). The growth information published in annual reports, it is argued, is a highly institutionalised process and as such represents “historical accretions of past practices and understandings” (Barley & Tolbert 1997: 99). The argument presented in the case of annual reports is similar to the one presented in chapter 4 and illustrated in Figure 10, that is, there is a mutually constitutive relationship between, institutions, texts and discourse, and that annual reports represent the “the residue or sedimentation of prior templates” (Suddaby *et al.*, 2014: 113). In other words, what Greenbury intended in the early 1990’s has mutated over time, and is not what is observable in 2015. This is important for a number of reasons which will now be examined.

For the purposes of internal consistency, take for example the annual reports produced by Barclays PLC which was previously mentioned. In 2012 their report was 353 pages long, whereas in 1992 it was just 84 pages long. (BarclaysPLC, 1992; BarclaysPLC, 2012). According to Committee member 6, this growth in reporting volume has led to the, “loss of interest on the part of all but the most assiduous of shareholders”. This change leads to a

number of significant implications which seem to undermine the normative assumptions of governance frameworks.

The increasing cost of meeting obligations as owners of an asset was identified as an issue for institutional investors, “you have to control your total costs and the amount of costs you’re prepared to put into corporate governance” (Committee member 7). A theme which emanated from the data is that the volume of information is too large which leads to prohibitive costs when performing their fiduciary duty as owners of the organisation, as Committee member 11 explains,

“I get these annual reports, put them in the draw, then the next one comes up and I put it in the draw. I never read all of it, I always read the divi, what the chairman is saying about the outlook, it’s really small... and then a little bit about the board, you know... to see who they are... The problem is regulation is only one way, its additive”.

Another committee member commented,

“If you’re a serious portfolio investor you get books like this from everyone and of course you don’t read them and of course it’s a waste” (Committee member 5).

Therefore there seems to be a clear case that the volume of information has become too great as a result of increased transparency requirement. Therefore the continued institutionalised growth of transparency, which was actually believed by the committee at the time as a “panacea” (Committee member 8), both mimetically and more often than not coercively (as a result of public expectation), has led to exactly the opposite of that which was intended. Institutionalisation in this example, has therefore made organisations less, rather than more accountable for their actions.

There however, a number of changes which compound the observation made above. As institutional investors increase the size and concentration of their stakes, organisations are becoming less accountable (Davis, 2008; Jackson, 2008; Davis, 2009). Given this ownership is generally liquid and without commitment, the desire or ability to fulfil their ownership responsibilities are diminished (Tilba and McNulty, 2012). This transformation in ownership profile has evolved in the era since Cadbury and was originally, arguably founded on widely optimistic assumptions about shareholder behaviour, transparency and accountability. The

conflict between shareholders behaving as owners, or simply treating their shares as commodities was questioned by Committee member 11,

“Shareholders want better shareholder return and the freedom to buy and sell shares. They don’t want to take wide accountability for the behaviour of companies, it’s not their job...”

Therefore the assumption of the modern shareholder or, “this mythical shareholder” (Committee member 10), as a diligent corporate owner, is a key failure the committee members recognised in retrospect,

“There is this theme behind them [the shareholders] which is ‘we’re in it for the long term’, the shareholders are widows and orphans who have inherited their shares and will keep them for a lifetime’, it’s quite charming and aphoristic in a way...” (Committee member 10)

The implication of these comments is the acknowledgement that the whole concept of shareholding has evolved since they participated in the Greenbury committee. These views have been reinforced in the literature by research from Hendry *et al.* (2006) who found that fund managers do not behave as principals in the agency perspective, moreover their behaviours are that of traders who rely on technical analysis of share patterns and, “portfolio constraints”⁷⁵ (Hendry *et al.* 2006: 1116), much more than a firm’s strategy when making investment decisions. Other work by Tilba and McNulty (2012: 165) concurs with this perspective stating that the principal agent perspective “is more assumed than demonstrated”.

However, these findings may not be true of all shareholders who occupy a diverse range of positions in a variety of ownership structures. For instance, the term *institutional investor* covers a plethora of organisational realities, they may be hedge funds, pension funds, unit trusts, insurance companies or even private companies. The former chairman of the National association of pension funds (NAPF) said,

“The really active traders are a small minority at the margin who turn it over like billy-o. If you take the average investor and ask them how long they hold for, it

⁷⁵ Pre-determined structural demands imposed on the fund manager by the institution in order to meet a wider set of strategic objectives for relating to the sector, stated financial gearing or organisational ethos more generally.

actually quite long... the overwhelming majority of serious institutional investors take their ownership duties very seriously." (Committee member 3).

Research seems to point to the larger pension funds being in a stronger position to fulfil their responsibilities as owners more comprehensively because they have significant internal resources to engage (Tilba and McNulty, 2012) and possibly as a result of the increased volume of information being made available, thus making the Greenbury definition of transparency more effective. However, the former head of the NAPF noted that, "the majority of smaller pension funds, possibly as a result of the increased reporting [incited by Greenbury] will delegate corporate governance to external specialists" (Committee member 3).

Finally, related to the point above, there is a feeling that the interests of the 'owners' are divergent from other interests in the investment chain, all of whom may have differing objectives based on their involvement. Essentially there seems to be a malfunction in the alignment of principal and agents which has been created as a result of the increasing length of investment chains and dichotomous objectives,

"The agent principle point is very powerful here because, there are people, for perhaps good reasons, feeling that they're under pressure to deliver in the short term whereas the assets they are husbanding, are supposed to deliver in the long term for the people that are going to retire 20, 30, 40 years hence. It just doesn't make sense." (Committee member 4)

The members point above is corroborated by the Kay review which said, "Overall we conclude that short-termism is a problem in UK equity markets, and that the principal causes are the decline of trust and the misalignment of incentives throughout the equity investment chain" (Kay, 2012: 9).

The implication is that there is lack of accountability because the governance system doesn't have the appropriate structures in place to align the interests of principal and agent as ownership structures evolve, or to deal with issues of short termism, which have developed since 1992,

“It does stagger me there is so much short termism [now]. That must mean less accountability, because people don’t know who their shareholders are.”

(Committee member 2)

One of the members interviewed spent over 40 years working in financial services and he pointed to change in ownership structure causing the problems noted above and “bad behaviour in fund management” as in the 1990s ,”there weren’t the hedge funds [back then]” (Committee member 7).

The short termism that Kay identified previously is moreover a systemic failure of the way modern markets have evolved, in particular the technology has had a huge impact. 72% of all trades on the LSE are now high frequency trades (Beddington, 2012), the trades have no consideration for the underlying asset or strategy of the business. The argument exists that the regulatory framework encouraged short termism, partly as a result of the requirement to produce quarterly earnings statements⁷⁶ as Committee member 3 comments,

“Even in relation to pension funds, the trustees would meet quarterly I think it was and would screw the investment managers to deliver a better performance by the next meeting for god’s sake – a quarter later! So of course they all go scurrying off and start shifting shares about.”

It therefore seems that one of the unintended consequences of the increasing institutionalisation of annual reporting, is, as the title of this section suggests ‘overload’. As an unintended consequence of increased transparency, the objectives of transparency have fallen by the wayside. This isn’t wholly attributable to the increased reporting requirements recommended by Greenbury and others, but moreover a combination of various environmental changes resulting in the existing regulation becoming less effective. In this respected the theoretical basis of transparency [in Butler’s words] as being “*responsive to the other*” (Butler, 2005: 91) seems to be malfunctioning as a result of this evolution.

7.6 Ownership and accountability

As reported in chapter 4, the premise of the Cadbury (1992) and Greenbury (1995) reports, is that the principal will hold the agent to account. These are the normative assumptions of

⁷⁶ The FCA removed the regulatory obligation for companies to produce quarterly earnings statements in November 2014, but it would have forced to do so by November 2015 as a result of the European Transparency Directive which forms part of EU law.

agency theorists, and are the foundations of modern corporate governance. As discussed in chapters 2 and 6, Butler argues that accountability is in part about, “becoming responsive to the other” (Butler, 2005: 91) and that being accountable rests on the premise that in forming an account, ‘we’ are “giving an account of oneself” (p3) which is based on a moral responsibility to ‘the other’. As was discussed in chapter 4, the corporate governance texts have increasingly focused on the individual as the agent of accountability, with increasing emphasis placed on individual behaviours and morality.

It was presented to the committee that the idea [purported by Cadbury and Greenbury] of increased accountability had paradoxically led to decreasing levels of accountability. The fragility of the system was identified by Committee member 8,

“if a shareholder thinks that it’s the wrong thing to do and doesn’t stand up and say so then the whole system falls by the way side... a lot of the time shareholders have not said anything. So if you look at the system shareholders are quiescent”

Committee member 10 went further in saying, “the vast majority of owners don’t give a damn, the hedge funds don’t give a damn about this sort of stuff [corporate governance]” this was partly suggested to be the case because the owners, in this context the fund managers, own remuneration had also increased substantially,

“the remuneration of fund managers, has increased more steeply than the directors you’re looking at. That does impact, as they don’t see it as being abnormal” (Committee member 10).

Therefore if there is a group of people acting as owners who are not necessarily unable, but unwilling, to hold the agent to account on certain issues, in this context remuneration, then the Cadbury inspired agency based premise of accountability breaks down. Indeed these findings are consistent with that of Davis (2008), Davis (2009), Jackson (2008) and Tilba and McNulty (2012) in so much as there is little evidence that increasing the reporting burden, has led to the strengthening of agency relationships, or to made individuals ‘responsive’ to ‘the other’ which is Butlers (2005) theoretical conception of transparency.

One of the members suggested that the breakdown in accountability was so severe that there was, “an inverse relationship between the level of regulation and the level of honest accountability.” (Committee member 4). Therefore the proposition is that the attempts which

have been made to regulate [Greenbury for instance], have clearly not been effective and actually have contributed to further declines in accountability. So therefore in examining change, the intended consequences may have been replaced with other consequences.

7.7 Conclusion

One of the key findings presented in this chapter has been the diminishing numbers of executive directors on boards over the period in question. In trying to explain causation there has been an examination of how variables such as directors remuneration, may have contributed to the structural changes observed.

Structural changes lead to changes in assumptions about how companies are, or should be governed. In particular changes to accountability relationships have been shown to be mediated by structures. Institutional approaches to organisational evolution to provide explanation for the structural changes observed, which support many of the assertions located in chapter 4. Therefore the findings presented in this chapter complements those of 4, 5 and 6 in describing the relationship between structures, texts and behaviours.

The institutionalised evolution of reporting practices, and in particular the increased volumes of reporting information, mutated the relationship shareholders have with directors. This has triangulated the data presented in chapter 6 pertaining to the failure of transparency, in delivering normatively assumed outcomes.

Finally, this chapter suggests that power in elite settings is multidimensional in that the weight of power (symbolic and cultural capitals) might be with the board of directors but the locus of power (knowledge and positional capitals) lies with the management board to whom corporate governance regulations do not apply. This clearly questions the effectiveness of traditional governance modelling which was designed in, and possibly for, a different era.

8. Conclusion

Against the backdrop of an evolving discourse of corporate governance outlined in chapter 4, this thesis has critically reviewed the antecedents, assumptions and subsequent effects of the Greenbury committee. Additionally, it has also gone further in interpreting the patterns and drivers of change in UK corporate governance since 1992. It has reported on a unique and robust series of interviews with the influential Greenbury committee, who provided a revealing insight into events in the mid-1990s and the logic which underpinned their recommendations. This concluding chapter reviews the main findings and arguments presented in previous chapters, whilst revisiting the research questions laid out in the introductory chapter.

What follows is a short summary of each individual chapter, followed by a consideration of the empirical, theoretical and methodological contributions of this research. It then debates the potential future direction of research in this area in the context of the findings and limitations previously outlined.

This thesis has illustrated that the study of corporate governance is fundamentally intertwined with the study of corporate elites, it reports on a period of distinctive change in corporate governance, both in terms of the empirical features which constitute the change and the specific mechanisms which instigated it.

8.1 Summary of the project

In Chapter 1 the frame of the research was identified. It introduced why corporate governance and executive remuneration are important contemporary topics, both academically and in policy terms, and it also contextualised the issues against a backdrop of socio-economic problematization. The first chapter explained that issues associated with executive remuneration, despite forming only a sub-stratum of the wider context, have much greater relevance than simply within their immediate proximal fields. The chapter also explains the overall aims and objectives of the research, including defining the four research questions concurrently addressed in chapters 4 through 7.

Chapter 2 reviewed the most important contributions to the corporate governance literature in relation to the research question presented in chapter 1. It included a review of common approaches to understanding corporate governance, such as agency theory, but it also

reviewed literature relating to the principles on which the regulations are predicated, such as transparency, power and accountability. It introduced important theoretical concepts, such as Bourdieusian theory and institutional theory, which contributed to the interpretation of issues presented in subsequent chapters.

Chapter 3 introduced the methods employed in pursuit of the research question. The important contribution this chapter makes to the thesis is the crucial link between the methods employed and the data generated. It justifies the use of complementary methods, whose objective is to uncover the genesis of structures through the use of interviews, and discourse analysis of the corporate governance texts. It highlights that the research is positioned in the interpretivist tradition and seeks to explain causation through an analysis of longitudinal change.

Chapter 4 tracked the evolution of the discourse of corporate governance through a comprehensive analysis of the texts which constitute it. The chapter sought to address research question 1: *How has the discourse of corporate governance evolved between 1992 and 2012?* This was answered by highlighting the changes in the dominant discourse over time which has become less concerned with formal structures, but rather increased emphasis on behaviours and morality. This does not mean that forms of structural compliance are no longer valid or necessary, but moreover that governance cannot be effective without appropriate behaviours. The chapter concluded that in order to be effective, corporate governance requires decent standards of moral and ethical behaviour are required by individuals and this is suggested as incredibly hard to regulate for, an admission tacitly made in the latter texts of the period. The chapter also introduced the idea of institutionalised change in corporate governance texts and suggested that to some extent, the texts tend to reinforce and reproduce one another.

Chapter 5 harnessed Bourdieusian theory to examine research question 2: *How and with what consequence did the ruling elite respond to the challenges presented by the executive remuneration scandals of the early 1990s?* In tackling this question the chapter provided a revealing insight into the field of power in the mid-1990s. It contributed to the understanding of power by illustrating the specific ways in which power was mobilised by the ruling elite. This occurred often overtly [through the passage of formal law], but also less overtly, through elite led regulation, which was the case in the Greenbury provisions. Theoretically this chapter propagates the idea that there is a process of *closure*, where governing elites partner

with the corporate elite in the field of power to address issues which are of pertinence to them as a collective grouping. In this way it illustrates the hitherto undocumented nature of elite solidarity and specifically, the actual mechanisms which constitutes it. This chapter highlights the relevance's of Bourdieu's theory in understanding the formation, deliberations and conclusions which the Greenbury committee drew. It also proposes that the provisions are an example of the regenerative, self-serving nature of power and the corresponding habitus of the agents operating in the field of power. The findings of the committee are illustrated to have profound and long standing implications not only for executive remuneration, but also for the concepts they championed.

Chapter 6 focused on the third research question presented in the first chapter: *To what extent were the Greenbury provisions successful in mediating the relationship between pay and performance?* It concluded that the assumptions on which the committee predicated their recommendations, as described in chapter 6, were at least partially responsible for the increasing levels of executive remuneration observed. The chapter concluded that the concepts championed by the report such as merit, transparency and accountability did not yield the results the committee members expected, in fact there were a number of unforeseen consequences which with hindsight resulted in diametrically opposite consequences. Philosophically, this chapter disinterred the Greenbury provisions, allowing an analysis of the concepts on which they were based. In this respect the chapter problematizes merit, which leads to a questioning of its normative foundations. This chapter also debates the effects of remuneration consultants and equity based pay and the use of pay to resolve agency problems. It corroborates Bebchuk and Fried's (2004) thesis that the Greenbury inspired remuneration schemes contributed to the *camouflaging* of executive remuneration.

Chapter 7 focused on answering the final research question which was, *what are the main patterns and drivers of change in corporate governance and executive rewards between 1992 and 2012?* The important empirical contribution it made to the thesis is in identifying a smaller cohort of directors at the pinnacle of British business now than in 1998. This highlights an evolution from a unitary board structure, to a more European style two tier structure. It suggests that the causes of these structural changes may have been the increasing focus on corporate accountability and transparency. It highlights a relationship between the evolution of the combined code [characterised by the changes noted in chapter 4] and the structural configuration of corporate governance. In solidarity with Lukes (2005), the chapter

proposes the idea that power in governance settings is both structural and relational, meaning there is both a weight of power and a locus of power and each issue is dealt with on a contextually specific basis. It goes on to suggest that the operation of corporate governance mechanisms are predicted, in part, by the structures which are observed. The chapter harnesses the idea of institutional theory to explain how normative understanding of issues such as transparency and merit may have led to the evolutionary patterns observed.

8.2 Empirical contribution, theoretical and methodological contribution

This thesis makes a number of identifiable contributions, empirically and theoretically. This section will bring together some of these contributions.

The contribution made empirically is principally based around the observations relating to trends in corporate governance. For example, the composition of boards of directors in FTSE 100 companies has not been analysed over the period in question before (although other studies have examined a similar set of issues over different time periods, e.g. Guest (2010)) and the de-facto switch from a unitary board structure, to a two tier systems is a key empirical observation. As discussed in chapter 7, this is significant because it has important theoretical implications in terms of how governance is, or should be, theoretically conceived.

Although the contiguous analysis of director's pay has been previously identified and discussed in extant literature (highlighted in section 2.6.1), it has not been studied longitudinally, within the boundaries of continuous FTSE 100 membership over the period under analysis. In making empirical observations, triangulating this data with those who operate[d] in the field of power, and then applying appropriate theory, this research has sought to critique many of the normative approaches to issues which have hitherto been taken for granted, such as pay and performance and the accountability through disclosure propagated by policy makers and business leaders alike.

This research also has notoriety and value as a piece of important oral history. It is extremely likely this research will represent one of the last times the entire Greenbury committee will give first-hand accounts of these important events in the mid-1990s. Therefore the sample is unique and historically robust. The significance of the provisions, especially with hindsight, has been shown to be extremely profound. They made an important contribution which was illustrated through the application of intertextuality (Kristeva, 1980, Allen 2011) and the

subsequent effect on future policy arguments in chapter 4. But more than their contribution to the wider discourse of corporate governance, their recommendations have been shown to make wider statements, both explicitly and implicitly in relation to the *meta-concepts* of merit, transparency and accountability.

The theoretical contribution this research makes is firstly in illustrating the way in which the ruling elite partnered with the corporate elite to respond to the threats posed by challenges to their dominant position. In doing so it advances the Bourdieusian stream of work pertaining to elites, which is an established approach to the study of modern elites. Therefore the contribution is in characterising this process as closure which is identified as a particular class of operation in the field of power. It illuminates the process of regulatory administration in the context of corporate governance, by highlighting the dynamism and flux incumbent in the field of power and its proximal or associated fields. The process of *closure* in this instance also has notoriety in illuminating the inner workings of the field of power, which is a world incredibly hard to study without the privileged access granted in this study. The contribution it makes is therefore to the wider literature on elites, particularly in the context of corporate governance and corporate elites.

The study also provides some critique of some of theoretical assumptions pertaining to corporate governance, in particular the theoretical premise of transparency in governance practices. Its contribution is to illustrate that in the case of the Greenbury provisions, “the market mechanisms that are held to constrain opportunism and the pursuit of self-interest, can actually be seen to feed it” (Roberts, 2001b: 1558), in the sense that transparency has seemingly had the opposite effect to that which was theoretically intended. There is ample evidence to suggest that the ‘ratchet effect’ (Figure 18) has led to an escalator in executive pay, as a result of increased transparency which was a stated aim of the Greenbury provisions.

Methodologically, this study adopts a novel way of studying a set collection of corporate governance texts, the mutated form of discourse analysis laid out in chapter 4 can be seen to be new way to interpret corporate governance texts. Therefore this study is unique in the way in which it identifies a distinct canon of texts as forming a collective discourse on corporate governance. The approach sought to illustrate that discourse in the area of corporate governance directly impacts, “the ‘conditions of possibility’ that determine what can be said, by whom and when” (Hardy and Phillips, 2004: 301).

It has been reported, specifically in chapter 2 and 4, that the organisational landscape has evolved profoundly since Greenbury reported in 1995 and many of the assumptions which constitute the provisions, many of which are now in statute, are increasingly invalid. As previously noted, one of the contributions this research makes, is to the ongoing critique of key issues which are normatively understood in terms of corporate governance; those of transparency, accountability and merit. These are important concepts which over time have become to be understood in a certain way. Therefore although this thesis only makes a limited comment on these principals generally, it does make important statements about their use within the context of corporate governance regulation specifically, particularly in reference to remuneration.

For instance, performance related pay is now widespread across both public and private sector organisations. This is extremely relevant because the premise that accountability can be commanded and self-interest contained through the allocation of incentives is a crucial failure of the Greenbury provisions and indeed all forms of normative remuneration policy pertaining to corporate executives. Indeed, as recently as 2012 the Kay report spoke about the importance of aligning and managing incentives. The adoption of performance related pay has created and championed a system which has implications beyond merely executive remuneration, as Coates (2003: 65) identifies,

“[owners of capital] have arranged affairs that the most active productive efforts of their subordinates can only intensify their dependence. The greater their productivity the greater the augmentation of hostile powers which may be used against them”

The unquestioning validity of so called ‘performance’ related pay has intensified the power of elite groups, particularly corporate elites. The legitimacy performance confers in terms of not only increasing rewards for a small elite, but also the justification for increasingly concentrated power by a smaller cohort, are profound. This is a monster which has been propagated, nurtured and reinforced by powerful interests. For instance, the use of sanctions under such a system for poor performance, is of less consequence for the director who waives their bonus, than for the worker who requires the money to feed his or her family. This is an “alien power” devoid of “real accountability” (Coates, 2003: 103) which makes assumptions about human nature which are not necessarily accurate.

Undeniably, there has been a vast improvement in living standards by the majority of people in the majority of western countries who have adopted many of the systems debated here-in, but this utilitarian perspective is over simplistic and represents a very one dimensional interpretation. What is possibly as important is the *relative relationship* between capital and labour. Power and domination are central to this debate,

“The original Marxist conception of exploitation never concerned simple money robbery; it always involved itself with the alienation of the product of labour from the control of labour over and above their own livelihoods at whatever level of affluence, a volume of capital, which under alien direction concentrates ever greater economic force against them in ever fewer hands. Conceived in these terms exploitation has been continuously intensified and aggravated” (Coates, 2003: 65)

Therefore what Greenbury actually propagated, was more than simply increased marginal remuneration for an elite few, they are legitimising a system of exploitation orchestrated to concentrate increasing capitals (power, wealth, education, networks etc.) concomitantly in the hands of a few, not the hands of the many. In particular this study concurs with the recent study by Savage (2015: 400) at the LSE, who says, “meritocracy is not a curb to escalating inequality, it is actually implicated within it”.

As was illustrated in chapter 4, 5 and 6 the power of elites to regenerate themselves are facilitated by systems, structures and discourse. The governance of institutions forms a central part of the broad system of neoliberalism which has evolved and mutated over the previous 30 years. This regeneration is part of what Piketty (2014: 571) identifies as the, “central contradiction of capitalism”, that is, that capitals (Piketty’s analysis is predominately concerned with economic capital but equally capital has in a Bourdieusian sense has been shown to be ubiquitous) compound leading to increasing inequality. The governance of organisations is important not just in mediating the increasing accumulation of capitals by an elite cohort, but also more profoundly to steer institutional objectives in a direction so that an “in-egalitarian spiral” (Piketty, 2014: 572) can be avoided.

8.3 Limitations of the study

There are of course clear limitations to this study. The first is that the sample of interviews was limited to members and advisors of the Greenbury committee. The composition of the

sample is something of a double edged sword. The main advantage was the comprehensive and privileged access obtained to one of the most important committees on corporate governance in recent times. The disadvantage as illustrated in Table 6 and Table 8, is not only that the sample size is comparatively small, but the interviewees are a homogenous grouping. Therefore this may have impacted on the nature of the responses received, after all, one of the claims made in chapter 5 relates to the homogeneity of the Greenbury committee. Also as the committee sat twenty years ago, the recollections of events may have been muddled by the passage of time. Further to this, although the majority of the committee had long since moved on from their roles at the time of the committee, some of them held important roles in the contemporary field of power. For instance, one of the members was the incumbent Chairman of the Bank of England, whilst another 2 others held significant political positions. To this extent, it may well have limited the frankness with which they were able to discuss some of the issues in the context of the interviews.

Clearly a significant drawback of this investigation is its focus over a single period in a single jurisdiction. As Charkham (2008:11) notes corporate governance, “reflects a country’s history and preferences” and as such the critique employed is most relevant in the context of the UK (that’s isn’t to say some of the theoretical debates aren’t more widely relevant). Which instruments of accountability are adopted, the impact of transparency, how meritorious behaviours are conceived, all vary enormously on an international basis and are based on a nation’s collective predilections and values. For instance, the OECD (2003) reports that the ownership and control of companies varies enormously internationally, the UK and US have a widely dispersed shareholder base, which as discussed raises a number of problems which have been previous debated in this thesis. However the ownership of companies in other jurisdictions are much less dispersed, in Indonesia for example 71.5% of firms have a family as controlling shareholder, whilst in Singapore 23.5% of firms are controlled by the state (OECD, 2003). These characteristics of ownership obviously bring a rather different set of conundrums and they are illustrative of only a small section of what is conceived of as ‘corporate governance’, but they do reflect the wider observation that the paradigm is inseparable from the more broad socioeconomic context (as was noted in chapter 1).

In much the same way in analysing changes in how governance is conceived in Chapter 4, the analysis is simply covering texts published with reference to the UK and although a comprehensive selection of texts were incorporated into the analysis, it does not, and cannot,

cover every text which constitutes what may be conceived of as the entire discourse of corporate governance. For instance, other important sources may be the uses of media archives (printed, audio and visual content) which all contribute the collective discourse of corporate governance. It is worth reminding ourselves that this content was analysed as a preamble to chapter 5 but did not substantively contribute as a discrete methodology in this research. This is possibly an opportunity for future research.

A further limitation is the lack of greater quantities of data which lead to inferential leaps which are made in certain circumstances. For example in chapter 7 we theorised that the observation that there are a fewer number of executives on boards of PLC's now, than there were in 1995, may be attributable to the transparency created by the Greenbury provisions and we provided anecdotal evidence from the Greenbury committee members to support this claim. This is symptomatic of the problematic nature of social scientific research which is characterised well by Piketty (2014: 575),

“To be sure historical causality is always difficult to prove beyond a shadow of a doubt. Are we really certain that a particular policy had a particular effect, or was the effect perhaps due to some other cause?”

It must also be mentioned in defence of the method that the application of appropriate theory helped to ease the anxiety felt in making some of the statements in this study. The causal leaps present in interpretivist studies such as this, may have been strengthened by interviewing the individual directors who form the sample in order to generate a greater understanding of their individual motivations and desires. In doing so the relationship between policy and practice may be more clearly illuminated and a more nuanced contribution to our understanding of the behaviours of elite groups may be generated.

8.4 Implications for future research

Contingency theorists have long suggested there is no one best design for a system of corporate governance and the possible design parameters for empirical enquiry are vast (Huse, 2005), not least because variables may be mediated by a range of non-context specific factors. But perhaps most relevant is further work into the assumptions of agency theory and managerial hegemony theory which have come to dominate contemporary corporate regulation since 1992. In policy terms, as was evidenced in chapters 4 and 6, certain assumptions are made about how variables relate to one other (transparency and

accountability for example or equally performance and merit), but these have been shown to have far from predictable relationships.

As outlined in chapter 2, since 2007 there has been a new thread of work postulating the existence of a 'New finance capitalism' (Davis, 2008; Davis, 2009) which questions normatively conceived principal agent relationships. In this context, there may be scope to examine whether the Combined Code is properly equipped to operate in this new world more generally. For example, one of the significant findings of this research is that the structural changes in corporate governance have not led to equally evolving forms of regulation. In fact the regulations which persist today were designed for the corporate world of 10 years ago (or possibly more). This would mean more than simply analysing levels of compliance, because we know that the vast majority of organisations are compliant with the code (FRC, 2013). Given the empirical observations made in chapter 7, a suggestion for future research would therefore be to examine the types of decisions that are being made at both the management board and the executive board within the organisation and analyse how capital is transmuted during the exertion of power in the decision making process. In such a way we would be able to get a feel for the relative effectiveness of the combined code in reaching its stated objectives. To gain a greater understanding of this change an understanding of the motivations and predilections of senior managers and directors would be required. This would most likely come through the use of interviews with those who are subject to the code's recommendations.

Related to the point about limitations on an internationally comparative basis, one of the opportunities for further research may be to do as Maclean *et al.* (2006) have done in their analysis of business elites in France and the UK and examine issues of remuneration, transparency and merit on an internationally comparative basis. Much of the research in corporate governance focuses on the Anglo-US context and limited attention is given to boards in other jurisdictions (Aguilera and Jackson, 2003). To what extent are these concepts defined differently on an internationally comparative basis and how are they framed in terms of the regulatory approach, is there a dialectic relationship between the two? What are the differences in remuneration practices and what can the UK gain from an analysis of other jurisdictions? The different economic paths taken in different countries leads to profound differences in elite mind-sets and institutional structures (Maclean *et al.* 2006).

As was identified in chapter 4, as the business landscape has evolved, so have the debates surrounding corporate governance, the current suggestion emanating from groups who espouse a different type of industrial democracy, such as the TUC, is that boards should move to a more European style of governance with employees represented on the board to mitigate the agency related issues debated in chapters 5,6 and 7. The advantages of a two tier system vis-à-vis a unitary system are succinctly highlighted by the TUC in their recent submission to the Treasury Committee inquiry into corporate governance and remuneration,

“The interests of workers are well correlated with the long-term interests of the company, and the TUC believes that having workers represented on UK boards would help boards to prioritise the long-term interests of the company in decision making, rather than being distracted by short-term financial engineering” (TUC, 2012)

As was illustrated in chapter 4 there is increasing emphasis on behavioural and moral aspects of corporate governance in the policy based literature, therefore future research should be directed at analysing the relationship between regulation and individual behaviours. Given the observation that leaders such as Goodwin (RBS), Hornby (HBOS) and Appleton (Northern Rock) were not constrained either by their boards or the owners of their businesses then how can similar failures be avoided? To what extent is leader - leader competition (the executive labour market) to be blamed for the overriding of long term decisions (for instance in investment and R and D where the UK has historically under invested as illustrated in chapter 1) and how is such completion manifested? Although others have already provided empirical observations in this area (see: Acharya, Pagano & Volpin. (2014) for example), an analysis of the behaviours and interactions that take place and how regulation may or may not have mediated these behaviours would contribute to a greater understanding of the topic and an analysis of how effective corporate governance regulation may or may not be. Certainly the area is bristling with opportunity for further study.

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Appendix 1

Example of QSR NVivo coding and analysis of corporate governance texts 1992-2012

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Behaviour

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| integrity | 4 | 14 | 19/03/2014 15:53 | MJP | 19/03/2014 15:53 | MJP |
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| spirit | 3 | 6 | 20/03/2014 14:13 | MJP | 20/06/2014 10:12 | MJP |
| standards | 8 | 107 | 20/06/2014 11:23 | MJP | 20/06/2014 11:23 | MJP |
| trust | 5 | 106 | 19/03/2014 15:52 | MJP | 19/03/2014 15:53 | MJP |
| values | 5 | 28 | 19/03/2014 15:53 | MJP | 19/03/2014 15:53 | MJP |

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Structure

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| independent | 8 | 197 | 28/03/2014 11:45 | MJP | 20/06/2014 11:19 | MJP |
| performance | 8 | 367 | 20/03/2014 13:31 | MJP | 20/06/2014 10:12 | MJP |
| regulation | 3 | 199 | 20/03/2014 13:28 | MJP | 20/06/2014 10:12 | MJP |
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Appendix 2

Example of QSR NVivo coding and analysis of the Greenbury Interviews

| Name | Nodes | References | Created On | Created | Modified On | Modified By |
|--------------------------------------|-------|------------|------------------|---------|------------------|-------------|
| Interview with Andrew Edwards | 8 | 23 | 08/07/2014 14:56 | MJP | 08/07/2014 14:56 | MJP |
| Interview with Angus Maitland | 10 | 32 | 08/07/2014 14:56 | MJP | 08/07/2014 14:56 | MJP |
| Interview with Donald Brydon | 7 | 16 | 08/07/2014 14:56 | MJP | 08/07/2014 14:56 | MJP |
| Interview with Geoff Lindey | 12 | 30 | 08/07/2014 14:56 | MJP | 08/07/2014 14:56 | MJP |
| Interview with John Carney | 14 | 58 | 08/07/2014 14:56 | MJP | 29/07/2014 14:06 | MJP |
| Interview with Robert Walther | 12 | 33 | 08/07/2014 14:56 | MJP | 28/07/2014 13:09 | MJP |
| Interview with Sir David Chapman | 15 | 39 | 08/07/2014 14:56 | MJP | 28/07/2014 16:45 | MJP |
| Interview with Sir David Lees | 12 | 41 | 08/07/2014 14:56 | MJP | 08/07/2014 14:56 | MJP |
| Interview with Sir Richard Greenbury | 9 | 30 | 08/07/2014 14:56 | MJP | 08/07/2014 14:56 | MJP |
| Interview with Tim Melville-Ross | 12 | 52 | 08/07/2014 14:56 | MJP | 29/07/2014 11:05 | MJP |
| Interview with Sir David Simon | 12 | 43 | 29/09/2014 10:38 | MJP | 29/09/2014 10:38 | MJP |

Accountability to shareholders [3.93%]

Reference 1 - 1.37% Coverage

AE: No accountability was very much a treasury thing, nobody ever told n accountability. It was sort of fairly obvious and in so far as transparency w broad categories of solutions as they then viewed it to deal with this perc who were able to help themselves to other people's money to an unlimit sort of political worry at the time.

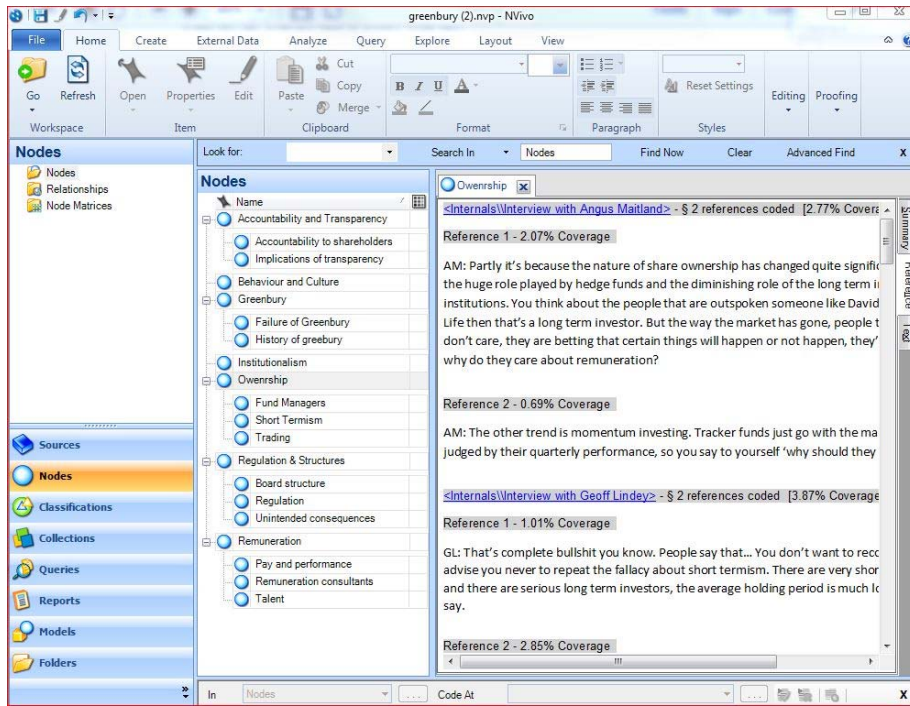
Reference 2 - 2.56% Coverage

AE: Comply or explain is maybe wishful thinking perhaps... My memory is conscious of that at the time.... That this disclosure thing did depend on sl part. There was also a consciousness that shareholders weren't very gooc can understand why. It's quite a lot of work for a pension fund to study th decide whether or not to campaign against the remuneration of this firm have that much effect on the profits or the dividends their investors are g understandable they don't put a lot of effort into it or see it as their main totally understandable and what we see in the figures is the amount of pr these things.

Accountability to shareholders [9.07%]

Reference 1 - 1.17% Coverage

AM: You have to remember they were moving from a huge lack of accour



Appendix 3

Constituents of sample forming the data set:

British Telecom
3i
British American Tobacco
Barclays
British Sky Broadcasting
Cable and Wireless
HSBC
Lloyds
Land Securities
Legal and General
British Petroleum
Marks and Spencer
Unilever
Rexam
Standard Chartered
Vodafone
Tesco
Sainsbury
Kingfisher
Rolls Royce
Royal Dutch Shell
Royal Bank of Scotland
Schroders
Prudential
British Airways / International Airlines Group
National Grid
Astra Zeneca
Rio Tinto
Smith & Nephew

Appendix 4

Prominent themes and their signifiers.

| Theme | Signifiers |
|--------------|---|
| Structure | robustness, framework, foundations, procedure, regulation, disclosure, independence. |
| Behaviour | behaviour, trust, integrity, standards, honesty, openness, spirit, values, principles, objectivity, stewardship, behaviour. |

Appendix 5

Examples of questions posed in the semi-structured interviews with members of the Greenbury committee.

How did you come to be involved?

“Can you remember anything about why you were appointed as an advisor and what your role was?”

“Can you explain what your role was in the deliberations?”

What is your background?

“What was your role at BP and what problems were you having?”

“What strengths did you bring to the committee?”

Why was the committee established?

“Are you aware of any of the background as to why it was set up?”

“Is this a case of marry in haste repent at leisure. A case of something must be done? Lock you lot in and say ‘come up with something lads’.”

“Ok John, we’d like some background, can you tell me how you got involved.”

The unintended consequences of the Greenbury provisions?

“It’s possible that it’s made boards smaller and there are fewer directors reporting their pay and that Greenbury created an escalator. So how successful has Greenbury been?”

“Have you got a view on the overall success or failure of the Greenbury provisions 20 years on?”

Remuneration consultants

“The whole idea of creating this committee structure and the need to report on that, was that supported by people that worked in remuneration policy?”

“Probing your angle on this. Clearly part of your role was to advise boards on remuneration. Now tell me something. Before the light was shone on this by the Greenbury code, how did you go about this?”

Regulation

“You’ll be aware that in terms of regulation there is always more and there is never less, part of our work is to analyse the effect of all this. Has it been effective and is it possible to have too much regulation.”

Pay and performance

“The Greenbury code talks about the commensurability with performance. Did you write that?”

“Is your view that shareholders receive good value from their executive in terms of remuneration?”

Ownership

“The idea of non-economic stakeholders having a say in business. Accountability to whom, stakeholders and shareholders, society?”

Implications of transparency

“Going back to Greenbury, two words that occur frequently in that article are accountability

and transparency and we talked to Andrew Edwards who drafted it... they've become shibboleths of our time... Can you remember the discussions you had about these words?"
"The transparency created in the annual reports, open the report and there it all is."

History of Greenbury

"Do you know anything about the political impetus for this, why it was set up?"
"As you'd have been aware, since Maxwell fell of his yacht, there has been a massive regulatory drive..."
"To what extent is Greenbury a failure?"
"The point is if you put a line through it you can see a big increase and we're surmising that it was the visibility created by the Greenbury provisions that caused this..."
"We're you aware of the political impetus for the Greenbury Committee?"

Changes in board structure

"Are you aware of any people who have said 'id rather not be on the board because I'd prefer to remain out of sight'"
"Is there any truth to the proposition that boards have got smaller to avoid the disclosure requirements under Greenbury"
Do you think boards have got smaller because their members are looking to avoid the reporting requirements?

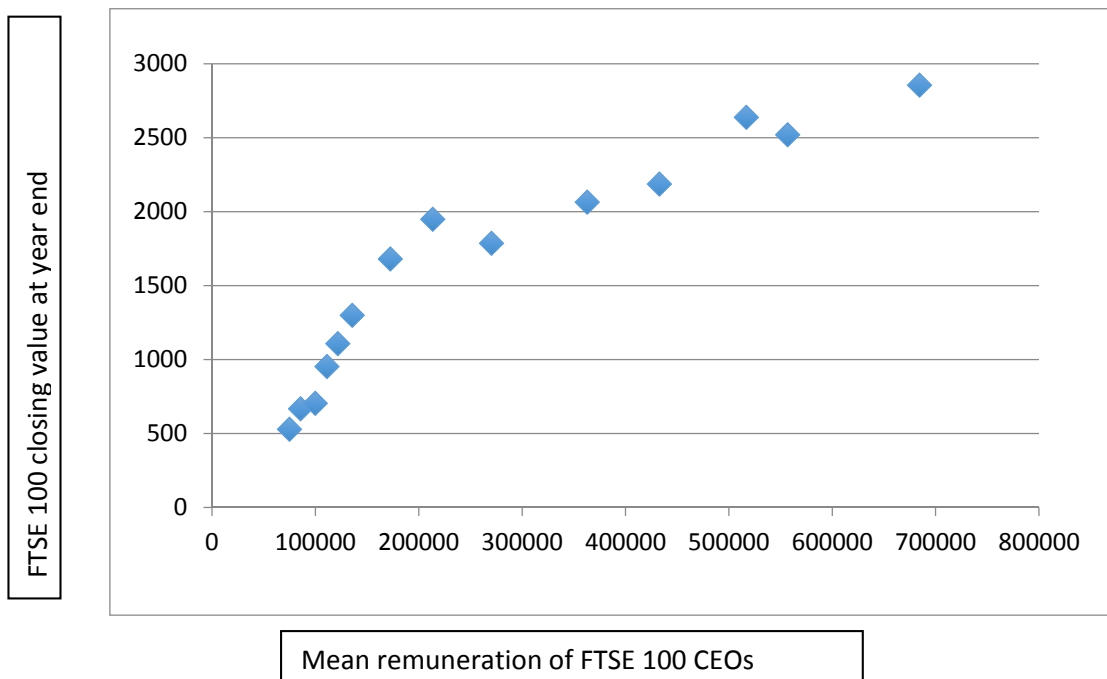
Behaviour and culture?

"But do you think you can prescribe behaviours, that's my question really..."
"Are you aware of any people who have said 'id rather not be on the board because I'd prefer to remain out of sight'"

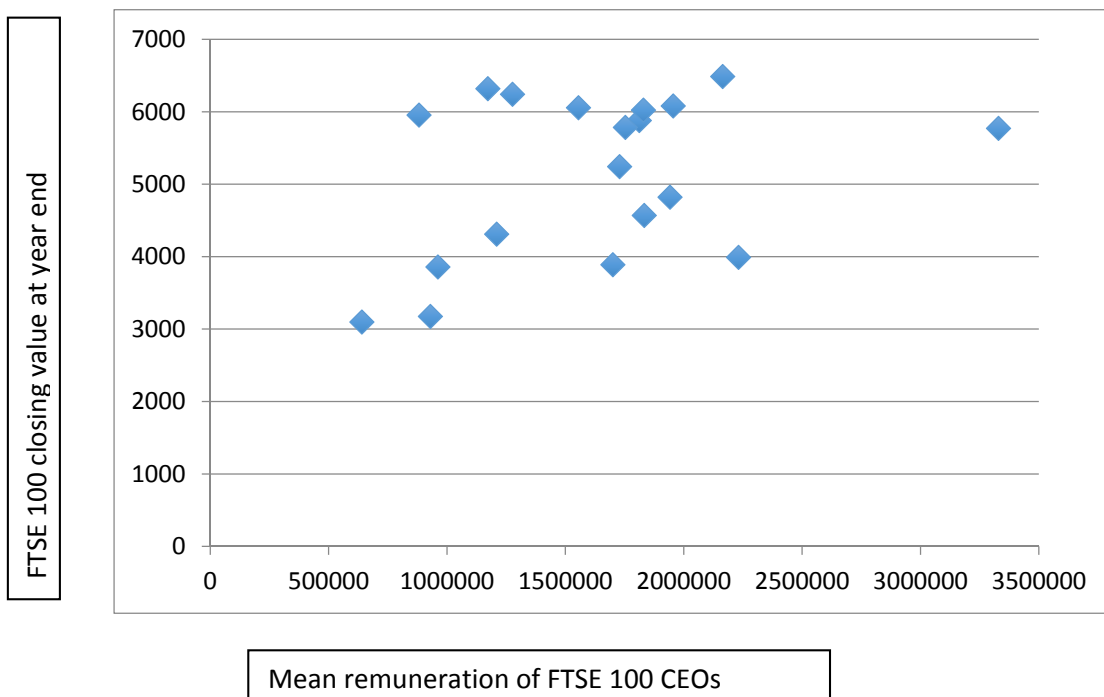
Accountability to shareholders.

"You spoke about the 'mythical' shareholders, we've got some data here showing the amount of people voting against remuneration report and it's in single figures. That would indicate that shareholders cannot hold executives to account, do you agree?"
"Do you think it makes the executives who sit on the board less or more powerful?"

Appendix 6 - Pay and performance scatterplots



Scatterplot of pay and FTSE 100 performance 1980 to 1994.



Scatterplot of pay and FTSE 100 performance 1995 to 2013.