Written evidence submitted by Michael Romberg (CGP0044)

Summary

1. The reason that board pay is unfair is because it is in practice set by the senior executives. It is shareholders who should set it – the directors work for them. Votes on remuneration reports are ineffective. Votes need to be on individual pay packages. For such a vote to be effective there needs to be an alternative, a scale fee set outside the company. The proposal has real practical problems. But given that other methods are likely to prove as ineffective as those tried so far and given the level of resentment about unfair and excessive pay it is worth trying to overcome these problems.

About the author

2. Michael Romberg is a retired senior civil servant who has worked in HM Treasury and the Home Office. At one stage he was responsible for systems for the control of pay of nationalised industry board members.

Link to Terms of Reference

3. This memorandum addresses the issue “What further measures should be considered?”

What is unfair about board pay

4. There is real public resentment about high pay at the top. But that resentment is to some extent targeted. Few are angry say with Madonna for being very rich. That is at least in part because she is seen to have become rich by her own efforts and to have done so in a fair and competitive market. No-one needs to buy her CDs.

5. The biggest resentment is about board pay, because company directors are perceived as – not literally but in effect – setting their own pay. Remuneration committees are made up of other company board members. Remuneration consultants encourage firms to up Board pay to attract the best through money in a continuing cycle.

6. There is also real resentment about pay levels in the finance sector. It is seen as lacking in competition. More importantly, it has successfully kept the profits while socialising the losses.
Who should set board pay

7. Board pay should be set by shareholders. They employ the directors. The State should neither set nor cap board pay. But the State should regulate company governance so that shareholders can set board pay.

Existing controls are ineffective

8. Shareholders have the right to vote on a remuneration report. That is of no value. The report is meaningless waffle. In the absence of a concrete alternative it is not clear what a “No” vote means. Lower pay? Higher pay? Higher for some appointments and lower for others? A different pay structure?

Effective controls need concrete choices

9. For an effective control, shareholders need to vote on the actual pay package of each board member. They also need to be presented with one concrete alternative.

Scale Fees

10. Shareholders cannot collectively conduct a negotiation. So the appointments and remuneration committees need to agree a recommended salary with the individuals concerned and put it to shareholders.

11. The alternative should be set outside the company. Scale fees could provide an appropriate level of pay for a managing director/finance director/HR director &c &c of a very large and complex/moderately large/smaller FTSE company &c &c.

12. Scale fees could be set by a public body or by a body fulfilling quasi-public functions, such as the Stock Exchange. They could be set by a body specifically set up to represent shareholders.

13. Scale fees could be set at a level that reflects existing pay levels for board members or at a level that reflects pay in senior positions across the economy as a whole, which would generally be much lower.

14. It is important to see that shareholders would be free to agree whatever pay they wished. It’s their money.

Practical Problems
15. The proposal throws up practical problems. For example the time and cost of voting. However, with electronic means both the time allowed and the cost could be minimised and regulations could specify use of electronic communication.

16. Some candidates might not wish their name to go forward for a job if it was going to be publicised before the new job was finalised. It would be embarrassing with one’s present employer to be shown to have applied for a job with another company, especially if shareholders rejected the agreed pay level and one did not in fact leave one’s present job. It would require a greater culture of transparency. That could be had – for example Norway publishes tax returns which are seen as private here.

**Rights to vote**

17. It would be important for members of institutional investors such as pension schemes and collective investment vehicles (OEICs) to have the ability to determine the voting policy of these bodies.

**Evasion**

18. Companies would try to get round the rules. For example they might move to another jurisdiction – so taking action across the EU would be useful.

19. They might make Boards entirely non-executive. Legislation could specify executive roles that needed to be filled by Board members.

20. Companies could engage board members under service contracts. Legislation could oblige a look-through in such cases.

**Conclusion**

21. For all its practical problems, this proposal would place effective power in the hands of shareholders, where it belongs. The creation of an effective and transparent process should assuage anger about Board pay.

**Recommendation**

22. I invite the Committee to look at means of enabling shareholders to take back control over board pay by making case by case decisions with a concrete alternative.
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