

Wage moderation for managers

AK EUROPA



Executive pay out of control



- Creativity and sense of innovation!
- Gap growing between workers (with nowadays often precarious jobs) and top executives even now that sacrifices are to be asked to rank and file employees
- Shareholders with not enough say on pay
- Only 2/3 of EU countries give details on directors' pay



Killing capitalism



- Pay rewards detached from performance
- Horrible in front of laid off workers and ruined shareholders
- Greed = not a virtue, just a vice, and a sign of pocket oriented behaviour instead of corporate governance directed towards the firm
- Warnings from:
 - Bébéar(“Vous allez tuer le capitalisme”),
 - Nicolas Sarkozy, Horst Köhler, Jean-Claude Juncker, Christine Lagarde...



Absentee landlords

- RiskMetrics, international voting agency advising shareholders to vote down Shell's pay plan
- Manifest another voting advisor proposed to reject Sir Fred Goodwin's pension
- Pressure on shareholders to stop the reward culture that led to the financial crisis
- Fortis saga: still overpaid CEO notwithstanding horrible losses suffered by shareholders, no remorse, no decency
- Shareholders to take remuneration policy into account when selecting investments, they now voice how they feel about pay packages



Fat-cat bankers



- Royal Bank of Scotland with a controversially granted 703.000 £ pension to an autocratic « bad banker »
- Bonuses after state intervention!
- Lloyds reduced pensions allowance to max.£ 1,6m...
- Self-regulation and shareholders power unfortunately did not work, so need to give supervisors powers to impose sanctions (such as heavier capital requirements) on firms whose remuneration policies generate unacceptable risks



Fat cats arguments



- Competition for talents: little correlation between these folkloristic remunerations and performance, in reality a matter of fear and power, and absence of real independent directors
- Comparisons with footballers and movie stars, why not with their employees
- American glamour (international “peer groups”)
- Disclosures on pay could trigger demands for higher remunerations.. (a farce)
- A problem of privacy...: so let us take it out of the private field and “say on pay”!



Un-independent nomination committees



- A question of having cronies of the imperial chief executives there
- Discussed behind closed doors without shareholder presence

Euroshareholders



Rewards for failure



- UBS remuneration system encouraging to take greater risks resulting in subprime losses
- Undeserved golden parachutes but often legally binding contracts...(especially among politically appointed creatures)



What about subsidiaries and conglomerates

- Unbelievable creativity to mislead the head office
- Lack of transparency, Barings in Singapore...
- Life assurance, medical assistance
- Car and plane
- Housing even rents from company buildings (sic!)
- Expense accounts also for representations costs that had not to be paid for



The European Commission



- Recommendations, one on remuneration in financial services, another one on directors' pay in quoted companies
- Encouraging deferred payment of the major part of bonuses in the financial sector
- Financial institutions to claim back bonuses when performance data were misstated



Solutions



- Netherlands: proposal to cap executive pay and severance payment to 500.000€ over which limit extra taxes would have to be paid
- Shareholders to have the tools, the information (transparency) to agree on compensation plans whatever the resistance of the board
- More say on pay would improve investor confidence (Australian study)



Is this chief executive himself the cause of success ?

- There is so much talk of teamwork and less reference to remunerating the team, but the CEO
- Need for an independent “risk assessment committee”
- One can imagine that top remuneration increases the motivation of one man, the CEO, but may discourage thousands of his colleagues, so...
- Has the CEO the right to jump on the occasion of a successful takeover with benefits to the shareholders to grasp stock options and fill his deep pockets, it was his job!



Executive Pay: a shareholders' view

- Nothing against good money for good people in good times
- Vertically :as compared to second and third line directors and average staff remuneration in the company (not of tennis and football players)
- Horizontally as compared to peer group
- Structure :1/3 fix salary, 1/3 variable income, 1/3 share-based (but long term oriented)
- Dialogue: shareholders to have the necessary information and right to voice their opinion on remuneration to the directors
- Golden parachutes: a clear cap, not based on already excessive remunerations

