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Executive remuneration and the limits of disclosure as an instrument of corporate governance

ABSTRACT

Why does disclosure continue to be seen as a panacea for failings in corporate governance, despite mounting evidence that it is a weak instrument of control? Through a micro-historical study of the constitution and deliberations of the Greenbury committee, which placed executive remuneration disclosure at the heart of UK corporate governance, we demonstrate how disclosure was discursively constructed by elite business leaders as a primary requirement of accountability of agents to owners. Our research, conducted twenty years after the publication of the Greenbury recommendations in 1995, is based on oral history interviews with surviving members of the committee and its professional advisers, who came to lament that their efforts perversely had helped escalate rather than moderate top executive pay. We argue that disclosure is a poor surrogate for real engagement by owners in corporate governance, and propose four general conditions that, if satisfied, might lead to increased accountability.

Keywords:

Accountability, Corporate governance, Disclosure, Executive remuneration, Greenbury Report, Transparency

1. Introduction

The foundations of the contemporary United Kingdom (UK) system of corporate governance were laid in the 1990s. The Cadbury committee reported in 1992, recommending separation of the roles of chief executive and chairperson to prevent granting 'unfettered powers' (Cadbury, 1992, s. 1.2, s. 4.9) to a single individual, and other reforms to limit possibilities for self-aggrandizement by management. To help restore confidence in the corporate sector and accounting profession following a series of corporate failures and perceived abuses, Cadbury introduced new standards and structures on a 'comply or explain' basis (Shrives & Brennan, 2017; Spira & Slinn, 2013). Cadbury side-stepped the issue of executive pay, but recommended that companies establish remuneration committees composed of non-executive directors (NEDs), since, as a matter of principle, executives should not be involved in decisions affecting their own pay (Main & Johnston, 1993). From Cadbury onwards, officer accountability, procedural transparency and disclosure of information have been widely regarded as fundamental to good governance (Maclean, Harvey, & Press, 2006). Indeed, later corporate governance reforms are best interpreted as refinements, elaborations or additions to the accountability-transparency-disclosure approach pioneered by Cadbury; who regarded disclosure as ‘the key to informed market regulation’ (Cadbury, 2013, p. x). The UK combined code of corporate governance is, in essence, an incrementally additive set of precepts that constitute a regime of elite corporate self-regulation, responsive to but not directly challenged by political factions or public interest groups (Price, Harvey, Maclean, & Campbell, 2018).

The first major enhancement to Cadbury stemmed from the report of the Greenbury committee or ‘study group’, as it was formally termed, published in 1995. This was established under the aegis of the Confederation of British Industry (CBI) in response to widespread public concern at sharply rising levels of private-sector executive pay. Following extensive deliberations and evidence gathering, Greenbury sought to address ‘important issues about accountability’ and avoid repeating recent ‘mistakes and misjudgements’ (Greenbury, 1995, p. 10) by strengthening the link between pay and performance and insisting on the establishment of remuneration committees by companies listed on the London Stock Exchange (LSE). Remuneration committees, composed of notionally independent NEDs, were now tasked with recommending fit-for-purpose reward packages for top executives and for disclosing relevant information in the company’s annual report (Greenbury, 1995: pp. 14-18). Greenbury believed that disclosing the components and total value of remuneration packages would thereby both limit and justify executive pay.

Sir Richard Greenbury, executive chairman of Marks & Spencer, was appointed chair of the committee in recognition of his reputation as a socially responsible business leader committed to serving the public interest (Maclean, 1999). He was given considerable sway in selecting and recruiting other study group members, and supported by professional advisors and a secretariat to assist in the process of gathering evidence and reviewing options. The Greenbury Report (1995) represents one of the earliest regulatory initiatives in the UK to address public concern over 'excessive' levels of executive remuneration. Greenbury explicitly recognized that his study group was established in response to the backlash against those 'remuneration packages [that] have attracted most public attention' (Greenbury, 1995, s. 1.4), especially the criticisms levelled against the chief executive officers (CEOs) of public utilities, whose remuneration had escalated following privatization (Conyon, 1995; Maclean, 1999). In 1995, after a rush of stories in the British press charging utility CEOs with opportunism and greed, the government, with an election looming, responded to the furore by asking Greenbury to recommend options for reform, while opposing regulation, which it considered 'more likely to hinder than improve governance' (Forker, 1992, p. 111).

The study group reported in the summer of 1995 and its recommendations, endorsed by government, were introduced later that year under listing rules for LSE-listed companies. The main Greenbury provisions were eventually incorporated into the UK combined code of corporate governance, and its main provisions have been retained in all subsequent editions. Moreover, because the UK code impacts on similar codes in a number of Commonwealth countries, its influence has been widespread. The substantive provisions of Greenbury were eventually incorporated in UK statute under the *The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.*

This article is focused on the efficacy of information disclosure as an instrument of corporate governance. Experience post-Greenbury suggests that disclosing the details of executive remuneration has not achieved the goal of moderating increases in executive pay relative to average earnings (CIPD, 2018; Clarke, Jarvis, & Gholamshahi, 2018). Rather, disclosure, far from shaming those responsible for devising remuneration packages into limiting executive pay, has been implicated in ratcheting up levels of remuneration across the corporate sector. The demand for ever more disclosure of information by corporate governance reformers might in this respect have lent impetus to the tendency for executive pay to outstrip that of other employees. In what follows, we seek answers to three questions. First, how did the Greenbury committee come to recommend disclosure as the best means of justifying and controlling the remuneration of top corporate executives? Second, how do surviving members of the study group reflect on the continuing escalation in top executive pay post-Greenbury? Third, how might our findings and those of other researchers contribute to realizing increased accountability?

Our paper proceeds as follows. In the next section, we examine the historical context of Greenbury's recommendations for better aligning top executive pay with organizational performance and, related to this, for increasing accountability through disclosure. Next, we review the related literatures on executive remuneration and corporate performance, remuneration committees, the impact of disclosure on pay, and shareholder engagement in pay setting to introduce the conceptual apparatus underpinning our subsequent empirical analyses. We then outline our methodology and explain our intention and approach in interviewing Greenbury committee members and advisers. Three findings sections follow. First, we report on a discourse analysis of our interviews that reveals how and why disclosure emerged as the favoured solution to the accountability problem Greenbury was mandated to solve. Second, we analyse how our interviewees make sense of the failure of the committee to achieve its primary objective. Third, we draw upon our data to elucidate four conditions that, if satisfied, might strengthen the accountability relationship between executives and owners. We draw out the implications of the paper in our discussion and conclusion.

2. Greenbury context, process and recommendations

The early 1990s was a time of ferment for the UK economy, marked by recession and the privatization of utilities and state-owned enterprises by a cash-strapped government led by Prime Minister John Major, who held office between 1990 and 1997. A spate of corporate collapses like that of the Bank of Credit and Commerce International in July 1991, which revealed that its directors had hidden information from auditors and falsified accounts over several years, fuelled concerns about the quality of audit procedures and the accuracy of corporate financial reports, provoking a crisis of confidence within the accounting profession and extensive debate on ‘how to restore confidence in financial reporting and the audit process’ (Spira & Slinn, 2013, p. 42). It is in this ‘climate of concern’ that the Cadbury committee on the *financial aspects of corporate governance* was established in May 1991 to help remedy ‘loose accounting standards, uncertainty over the control responsibilities of directors, and competitive pressures on companies and auditors to present results in line with published forecasts’ (Cadbury, 2013, p. vi). However, when the theft of £440 million from the Mirror Group pension fund by the late Robert Maxwell hit the headlines following his death in November 1991, the committee had ‘unavoidably to widen its remit from the financial aspects of corporate governance to corporate governance itself, and the responsibilities and composition of boards’ (Cadbury, 2013, p. vi). Cadbury finally reported and issued recommendations in December 1992 following extensive consultation on draft proposals issued the previous May. The report has made a seminal contribution, within the UK and beyond, to the practice of corporate governance, as Nordberg and McNulty (2013, p. 362) observe: ‘The legacy of the Cadbury report is how its language has come to define corporate governance’. Crucially, it set a precedent for how issues of corporate governance should be dealt with in future; not through formal legislation, but by a model of consultation leading to codes of best practice backed by the veiled threat of legislation (Jones & Pollitt, 2004).

The Cadbury report, however, did little immediately to stem disquiet about commonly perceived failings of corporate governance. In particular, the thorny question of executive pay rose to prominence when many of the former civil servants running privatized public utilities, re-styled as corporate sector CEOs, were awarded sharp increases in pay to reflect their new status as private sector business leaders. The resulting sense of injustice was compounded through the operation of share option schemes that realized large gains as utility share prices escalated following privatization (Conyon, 1995; Greenbury, 1995, pp. 49-52). Especially noteworthy was the case of former British Gas CEO, Cedric Brown, whose salary rose 75% to £475,000 in 1994, then equivalent to 47 times the average pay of British Gas employees (Ward, 1995, p. 17). How, it was asked, could this be justified when British Gas operated a virtual monopoly and provided a commodity on which millions of ordinary Britons relied? The British Gas AGM of 1995 lasted six hours and was attended by over 4,600 shareholders (Maclean, 1999). The Communication Workers' Union (CWU) brought along a live pig named Cedric to underline their point that Cedric Brown had his 'snout in the trough' (Maitland, 2008). The British Gas affair has endured in popular memory as a *cause célèbre* illustrative of ethical laxity (Bender, 2003). Issues framed in particular ways in the media can thus 'determine the strategies used to develop or contest understandings' (Black, 2002, p. 196). In other words, remedies are often designed to resolve specific issues taken as emblematic of more general problems.

What had emerged by 1995 was a general consensus that something must be done to strengthen the Cadbury code to help resolve the troublesome issue of executive pay, and in doing so head off the threat of government interference in private sector affairs. How Sir Richard Greenbury came to lead the proposed study group on remuneration setting is telling. The initiative stemmed not from the CBI as convening organization, but from the incumbent President of the Board of Trade, Michael Heseltine, who viewed escalating executive pay as a potential vote loser at the forthcoming general election. In his memoirs, Heseltine states that 'the criticism was intense and damaging [to the government]', adding that 'in order to try and deflect some of the criticism and particularly look for a means to avoid future outcry, I invited Sir Richard Greenbury to examine the issues involved' (Heseltine, 2000, p. 468).

Greenbury was initially reluctant to accept the role, recalling that he was 'quite loath to join [the committee] in any shape or form at the time', but was persuaded by Sir Michael Angus who had recently completed a three-year term as CBI President and remained a source of authority within the organization. Sir Richard then proceeded to appoint members on the basis of their seniority in what he identified as interested constituencies: the City, the corporate world, institutional and small shareholders, the investment community, and pension funds (see Table 2). The final committee consisted of 11 full members and five advisers, one of whom was the former Director General of the Department of Trade and Industry (DTI), brought in to draft the committee's recommendations and subsequently write the report. The selection of committee members provoked some mildly negative comments as several members had faced charges of receiving excessive and undeserved pay increases. For example, when Sir Iain Vallance, Executive Chairman of BT, received a 43% pay increase in 1991, he was dubbed in the press as the 'pound a minute man' (Oulton, 1991, p. 3), although the controversy quickly dissipated when it emerged that his entire £250,000 bonus had been donated to charity (Maitland, 2008).

The study group first convened in February 1995 and was charged with producing a report by the time that Parliament was prorogued in July of that year. There was thus a relatively short period of five months to collect evidence, debate issues and compile a report. Most interviewees recalled eight separate meetings of the full committee, each over breakfast at Marks & Spencer's head office in Baker Street, London. The civil servant responsible for writing the report spent June and early July 1995 putting together the document prior to the dissolution of Parliament. This involved a series of one-to-one meetings with study group members before agreement was reached on wording and recommendations.

Greenbury is primarily remembered for its recommendations on the establishment of remuneration committees populated by NEDs and the publication of an annual remuneration committee report. Sections 1.14, B4 and 2.3 of the Greenbury Report (1995) specify that the remuneration committee:

> 'needs to submit a full report to the shareholders each year explaining the company's approach to executive remuneration and providing full disclosure of all elements in the remuneration of individual directors… [which should] include full details of all elements in the remuneration package of each individual director by name… all listed companies… should comply with the code to the fullest extent practicable.'

The provisions became a listing rule following acceptance of the report by government, mandating detailed publication of each executive director's remuneration package under the usual enforcement mechanism of 'comply or explain'. This made remuneration information for executive directors publicly available for the first time as a formal requirement of compliance.

The Greenbury Report (1995, p. 7) states in its preface that its primary themes are 'accountability, responsibility, full disclosure, alignment of director and shareholder performance, and improved company performance.' It emphasizes the theme of accountability at several other points. Section 1.16 states that the report is based on 'fundamental principles of accountability, transparency and performance'. Roberts (2009, p. 958) notes that 'with every failure of governance we have been prone to invest in yet further transparency as the assumed remedy for all failures', an apparent cure-all for each new problem that emerges. In expressing the view that compliance is best monitored through listing rules, the report states that 'the way forward as we see it lies not in statutory controls… but in action to strengthen accountability and encourage enhanced performance' (s.1.13). It proposes that 'the key to strengthen accountability lies in proper allocation of responsibility for determining directors' remuneration, proper reporting to shareholders and transparency' (s1.14). The Greenbury provisions are thus founded on the assumption that increased disclosure strengthens the accountability of agents to shareholders. This was emphatically confirmed by all interviewees, for example:

> ‘The big issue was the amount of disclosure. Some, myself included, thought we were going overboard … We eventually came to the agreement and published the report saying the key element of this is open and frank disclosure of every aspect of remuneration. Everything from cars, to pensions, bonuses, cash, LTIPs [long-term incentive plans] – everything has to be there, itemised … *We thought this full and frank disclosure would put them [shareholders] in a position to stop abuse*’ (committee member E).

By making executive rewards more visible, Greenbury committee members assumed that shareholders would increasingly hold boards to account, and accordingly deliver better results for shareholders by aligning rewards with performance. It seems that committee members approached this issue with a degree of naivety, since it had been suspected for some time that investors found issues of reward relatively unimportant, provided returns were deemed acceptable, because top executive rewards, while large in relation to average salaries, are typically small in relation to value added, profits and dividends (Benston, 1982, p. 92).

3. Executive pay, disclosure and accountability

The ‘theory of change’ (Rogers, 2014) implicit in Greenbury is that remuneration committees with access to robust pay and performance data and policed by shareholders, to whom vital information should be disclosed, should enshrine in management contracts financial incentives and sanctions that reward good performance and punish poor performance, so improving both the performance and accountability of UK firms. The committee looked to practice in the United States (US), where remuneration committees and LTIPs had been in use for more than two decades (Westphal & Zajac, 1994). Committee members testified to the influence wielded by John Carney, the committee’s expert adviser on remuneration and director of the transatlantic remuneration consultancy, Towers Perrin, in what may be described as a classic case of transatlantic mimetic isomorphism (DiMaggio & Powell, 1983).

Four key assumptions are foundational to the executive remuneration model propounded by Carney, accepted by Greenbury, and translated into the study group's report and recommendations. First, it was assumed that remuneration packages could be designed effectively to link executive pay with corporate performance. Secondly, it was assumed that remuneration committees, in setting incentives, should function independently, free from management interference. Thirdly, it was assumed that disclosing details of executive remuneration would have a moderating effect on pay. Fourthly, it was assumed that disclosing information on executive remuneration would license institutional investors to exert more control over executive pay. In what follows we interrogate each of these assumptions in turn in light of relevant research.

3.1 Executive pay and corporate performance

Fundamental to the deliberations of the Greenbury study group was the idea that executive behavior can be controlled through contracts aligning the objectives of those who manage companies and the shareholders that own them (Fama & Jensen, 1983; Jensen & Murphy, 1990). This assumption underpins much of the academic and practitioner literatures on corporate governance (Hendry, Sanderson, Baker, & Roberts, 2006), and it is unsurprising that the Greenbury study group, populated by business leaders and advised by a US-based remuneration consultancy, subscribed to the conventional wisdom. This states that executives should be incentivised through an appropriate mix of basic pay, bonuses and LTIPs to pursue strategies and make decisions that maximize total shareholder returns (Clarke et al., 2018). Under this prescription, pay should be increased in line with corporate performance, rewarding executives by degree of success and penalizing them for failure to meet agreed objectives. According to agency theory, the potentially conflicting interests of principals (shareholders) and agents (executives) are reconciled by optimal contracting (Price et al., 2018).

The existence of a positive relationship between top executive pay and corporate performance, however, has been called into question by research conducted post-Greenbury. Buck, Bruce, Main and Udueni (2003) find that LTIPs introduced after 1995 intended to increase pay-performance sensitivity led in practice to reduced sensitivity to total shareholder returns. Gregg, Jewell and Tonks (2012) find pay to performance symmetries when stock returns are high, but pay to be less sensitive to performance when stock returns are low. Even more starkly, a study by Li and Young (2016) of FTSE-350 companies finds that while total realized pay for the median CEO rose by 82% in real terms between 2003 and 2014/15, the median company generated 'little in the way of a meaningful economic profit over the period 2003-2009 … and although performance improved from 2010 onwards, the median firm generated less than 1% economic return on invested capital per year' (p. 1). The authors conclude that 'despite relentless pressure from regulators and governance reformers … to ensure closer alignment between executive pay and performance', there is little evidence of a positive association 'between pay outcomes and … value creation' (p. 2).

These studies cast doubt on the validity of Greenbury's assumption that incentive payments would be triggered only when stringent performance criteria had been met. In practice, this ideal is often frustrated by executive manipulation of targets and information, as confirmed by research on CEO incentives and the manipulation of reported earnings (Bergstresser & Philippon, 2006), CEO contracts and misreporting (Burns & Kedia, 2006), and the impact of earnings management on pay-for-performance (Cornett, Marcus, & Tehranian, 2008). Research from a behavioral economics perspective by Pepper, Gore, and Crossman (2013) on financial incentives and the motivation of senior executives likewise concludes that 'the way executives frame choices, perceive value, assess probability, evaluate temporal effects and respond to uncertainty means that LTIPs are generally not efficient and are often not effective in meeting their objectives' (p. 36). Harris and Bromiley (2007) meanwhile find that the adoption of high levels of executive share options increases the probability of corporate financial misrepresentation, and Harris (2009) goes further in suggesting that it is naïve to believe that increased financial incentives will lead to value creation rather than behaviors that simply trigger pay-outs for management. In the extreme case of Enron, a large proportion of total compensation came from stock options, incentivising executives to focus on 'creating expectations of rapid growth and … puff up reported earnings (Healy & Pelepu, 2003, p. 13).

3.2 Remuneration committees and top executive pay

Remuneration committees composed of independent non-executive directors were assumed by the Greenbury committee to have the authority to negotiate at arm's-length with senior executives over performance targets and related financial rewards. It was asserted that remuneration committee members, if appropriately supported by expert advisers, have the critical distance from management needed objectively to devise and implement remuneration packages that might simultaneously deliver improved returns for shareholders and appropriately reward top executives. According to our analysis, the informational, technical and behavioral challenges involved in the process were never considered in detail.

The second Greenbury assumption – that remuneration committees are free to bargain with executives at arm's-length, independently and objectively – has since been challenged in the literature. Bebchuk and Fried (2004), leading critics of contemporary executive pay arrangements, argue that chronic information asymmetries and the power wielded by management teams have resulted in executives, in part at least, taking over 'the compensation machine, leading to arrangements that fail to provide managers with desirable incentives' (p. 8). Under this scenario, executives are able to 'capture' boards and board committees, including remuneration committees, to reap undeserved rewards by manipulating performance management systems to advantage (Shan & Walter, 2016). In effect, managers ‘use their power to secure rents … extracting value beyond what they would obtain under arm’s length bargaining’ (Bebchuk & Fried, 2004, p. 61). This is particularly true with respect to LTIPs, which ‘enable managers to reap windfalls from stock price increases that are due to market and sector forces beyond managerial control’ (p. 73).

According to Bebchuk and Fried (2003), the problem of ‘pay without performance’ is ultimately the result of shareholders, as principals, having ceded control of firms to executives as agents. Remuneration committees, especially those under the effective control of powerful CEOs are seen as inadequate to the task of designing compensation schemes that adequately align executive pay with corporate performance. A measure of support for this hypothesis is found in Sapp’s (2008) Canadian study of executive remuneration at 416 firms listed on the Toronto Stock Exchange showing that weak internal governance arrangements result in higher pay. However, in a US study of remuneration committee behavior over 14 years of 110 randomly selected firms listed on the New York Stock Exchange, Anderson and Bizjak (2003, p. 1323) find ‘little evidence that greater committee independence affects executive pay’ or that removing CEOs from remuneration committees limits pay or incentives. Meanwhile, in testing for the impact of remuneration committee independence on CEO pay, using UK data for FTSE-350 firms for 1996-2008, Gregory-Smith (2012, p. 510) finds no evidence of a relationship between CEO pay and director independence, ‘challenging the theory of managerial power’. In the same vein, Ryan and Wiggins (2004) find that the pressure to increase the proportion of pay stemming from LTIPs has come not from executives but from independent directors seeking to exercise greater control over top management teams. This is consistent with Sun, Cahan and Emanuel’s (2009) finding that the higher the quality of a remuneration committee, where quality stems from the collective experience, seniority and network centrality of members, the better aligned are incentives to future performance.

It may be concluded that while designing incentive schemes that accurately equate executive pay with corporate performance is problematic, confounding the first of Greenbury's assumptions, typically this is not because remuneration committees cede control to the executives with whom they are contracting. To this extent, Greenbury was correct in assuming that remuneration committees populated by independent directors might assume the power and authority needed to negotiate at arm's-length with senior executives over terms and conditions of employment. This said, it would be naïve to believe that management is completely lacking in agency in the remuneration setting process, as Jensen and Murphy (2004, p. 50) point out: 'remuneration committees routinely lack the information, expertise and negotiating skills necessary for hard-nosed contract negotiations with incumbent and incoming executives [and] as a result, executive contracts are almost inevitably tilted towards the benefit of top executives.'

3.3 The impact of disclosure on executive remuneration

The third of the Greenbury assumptions – that remuneration disclosure, by placing shareholders in a better position to sanction executives, might have a moderating effect on pay – finds little support in the literature. The weak empirical relationship between executive pay and corporate performance suggests the existence of forces more powerful than shareholder pressure in determining executive rewards. Notably, in answer to the question 'why has CEO pay increased so much', Gabaix and Landier (2008, p. 72), after testing a simple competitive model of CEO compensation predicting that compensation should change in proportion to the average size of firm in a group, conclude that the six-fold growth in US CEO pay between 1980 and 2003 was attributable to a corresponding increase in the market capitalization of large firms. This suggests the existence of a market for top executive talent governed by prevailing norms and expectations, supporting the argument made by Ezzamel and Watson (1998, p. 221) that 'in an informationally efficient executive labor market, it is unrealistic to expect changes in executive pay to be closely related to firm performance measures.' What matters more, they hold, is that 'for motivational, recruitment and retentions reasons, a firm's compensation committee has to ensure that its senior executives are paid at least the going rate, or the compensation level paid by similar firms to comparable individuals occupying comparable posts.' The authors find strong support for the hypothesis that recognition of pay anomalies by relatively underpaid executives leads to significant upward pay adjustments, fuelling the tendency to bid up levels of remuneration, 'consistent with the argument that there is an upward bias in executive pay' (p. 230). The same scenario is modelled in game theoretic terms by Hayes and Schaefer (2009, p. 289), who demonstrate that pay disclosure 'may spur a Lake Wobegon Effect', widely cited as a potential cause for rising CEO pay, which is seen to occur 'because no firm wants to admit to having a CEO who is below average, and so no firm allows its CEO's pay package to lag market expectations' (p. 280). In other words, disclosure, in exposing cases of relative underpayment, combined with the inclination of remuneration committees to pay executives above the norm, incites the ratcheting up of executive pay. Hence the escalation in executive pay in Canada following the mandating of disclosure in 1993 (Craighead, Magnan, & Thorne, 2004).

Remuneration consultants have been heavily implicated in the ratcheting up process. The argument runs that 'since pay below the 50th percentile is often labelled "below market" while pay between the 50th and 75th is considered "competitive," the surveys [undertaken by consultants] have contributed to a "ratchet" effect in executive pay levels as firms choose to target their pay above the 50th percentile' (Jensen & Murphy, 2004, p. 56). Moreover, it is suggested that because remuneration consultants are hired by senior management, not remuneration committees, there is 'an obvious potential conflict of interest, since the consultants make recommendations on the pay of the individuals who hire them', increasing the likelihood of inflated rewards (p. 55). That some consultants engage in cross selling services might, it has been suggested, exacerbate this tendency. Murphy and Sandino (2010), for example, find evidence that in both the US and Canada CEO pay is higher when consultants sell multiple services to client firms. However, other researchers have found little evidence to support the cross-selling hypothesis (Cadman, Carter, & Hillegeist, 2010). Conyon, Peck, and Sadler (2009), in a comparative study of large US and UK firms, reject the conflict of interest hypothesis, but confirm that CEO pay is higher in firms that use remuneration consultants, and that LTIPs constitute a larger part of total compensation in consultant advised firms.

3.4 Remuneration disclosure and shareholder engagement

The fourth assumption underpinning the Greenbury recommendations – that disclosing information on executive remuneration would license institutional investors to exert more control over executive pay – stemmed from the belief that intermediaries like pension funds and asset managers were willing and able to challenge proposals made by corporate boards. Research findings on this topic are mixed and deny ready interpretation. This is because we have little direct knowledge about when and how institutional investors engage with the majority of firms in which they have significant holdings, although research supports the view that in closely-held firms with a handful of dominant shareholders there is a higher degree of sensitivity of pay-to-performance (Hartzell & Starks, 2003; Craighead et al., 2004), suggesting that large shareholders more readily intervene to align their interests with those of management. However, for the majority of firms with widely-held shares, the connections between institutional investors and senior managers are seen to have become progressively weaker as a consequence of three related trends (Wong, 2010). First, institutional investors – hedge funds, mutual funds, pension funds and asset managers – typically hold shares in hundreds and even thousands of companies, which makes monitoring difficult and costly. Many employ proxy advisors to offer guidance and vote at annual general meetings rather than engaging directly with portfolio firms. Second, institutional investors are under pressure to maximize financial returns and routinely engage in buying and selling blocks of shares, with the result that average holding times in the US and UK are now measured in months, not years (Sikka & Stittle, 2018). Third, there has been a lengthening of the share ownership chain with more intermediaries coming between owners and managers, as for example when a pension fund delegates 'pension fund investment management to a chain of external relationships involving actuaries, investment consultants, and fund managers' (Tilba & McNulty, 2013, p. 165). The upshot is that the incentives for institutional investors to serve as stewards within the corporate governance system have diminished, leaving managers, according to Bebchuk and Fried (2004), in a more commanding position.

These themes are explored in a landmark survey of 143 US institutional investors by McCahery, Sautner, and Starks (2016), revealing that 63% of respondents had engaged directly with portfolio firms in the previous five years, and that 45% had met board members without executives present. These results are consistent with prior evidence that individual institutions frequently engage with management behind the scenes (Dimson, Karakas, & Li, 2015). Voting against management resolutions was used by 53% of respondents as a regular means of engagement. More extreme engagement channels were found to have relatively high usage rates, with '15% of respondents having taken legal actions and 13% having publicly criticized their portfolio companies' (p. 2913). Long-term investors were found to intervene far more often than short-term investors on matters such as executive pay, strategy and corporate governance, and 60% of respondents used the services of proxy advisors for information on portfolio companies and voting on resolutions. The authors conclude that while there is extensive evidence of institutional investor engagement, there are numerous impediments limiting engagement such as monitoring costs, high portfolio turnover rates, and legal concerns that serve as barriers to shareholder activism (pp. 2921-2923).

These findings are consistent with those of UK research. Dong and Ozkan (2008) use portfolio turnover rates to distinguish between engaged and disengaged institutional investors in their study of executive remuneration setting at 546 non-financial firms. They find that the presence of engaged institutional investors restrains pay and increases pay-performance sensitivity, whereas disengaged institutional investors have no discernible impact on either. Tilba and McNulty's (2013) qualitative study of UK pension funds finds that only a handful of well-resourced and internally managed funds exhibit engaged ownership traits. Conyon and Sadler find that between 2002 and 2007 just 10% of shareholders abstained or voted against the mandated Directors Remuneration Report resolutions and that the trend is downward. These and similar results, suggest McNulty and Nordberg (2016), highlight the tension resulting from the clash of market forces that cause institutional investor disengagement and the political and institutional forces that urge engagement.

3.5 Summation and stance

Research on executive remuneration and pay disclosure exposes the flaws in the theory of change animating the Greenbury study group recommendations. It is not the case that remuneration committees, however independent of management, have found it easy to increase the sensitivity of pay to performance. Nor have institutional investors armed with information on pay stepped in regularly to monitor performance and challenge the recommendations of incumbent boards. Disclosing the details of remuneration packages has not moderated the escalation in executive pay and income inequality. In sum, disclosure, the activities of pay consultants, normative pressures, the passivity of shareholders and competition between firms to pay executives at above the going rate have conspired systematically to incite the ratcheting up of executive pay, fueling disparities in income and wealth (Clarke et al., 2018).

The stance we adopt here is that powerful market forces, already unleashed at the time of Greenbury, have transformed the position of most institutional investors, with notable exceptions such as CalPERS and Hermes that actively manage their own money, making them less willing to play a stewardship role in matters of corporate governance. There is pressure for institutional investors to act as responsible owners, but for the most part they do not (Sikka & Stittle, 2018). Accountability is conflicted because institutional investors increasingly act as self-interested agents rather than owners. It is thus not so much that executives have become powerful versus investors, as Bebchuk and Fried (2004) contend, but that the institutional investors are incentivized to act as self-interested agents, increasing portfolio turnover to improve fund performance. Short termism in effect produces disengaged investors, undermining the agency theory assumption of robust negotiations between owners and managers. Greenbury, in buying into this assumption, in framing the problem of executive pay as one of pay-for-performance rather than the absolute level of pay, applied agency thinking to justify and perpetuate high and rising pay. The main effect of disclosure was then to feed the ratcheting up of incentives rather than help foster a culture of fairness and restraint, as Kay (2017) has recently observed. In what follows, we explore through a micro-historical study of the discourse, recommendations and reflections of Greenbury committee members and advisers, the social, political and institutional underpinnings of inflated levels of executive remuneration in countries like the UK. We are concerned, more specifically, to understand why so much faith has been placed in disclosure as a means of justifying and controlling executive remuneration, what has gone wrong, and what might be done to help remedy the situation.

4. Methodology

Our broad methodological stance is that of historical organization studies:

organizational research that draws extensively on historical data, methods and knowledge to generate analyses ‘whose validity derives from both historical veracity and conceptual rigor’ to enrich ‘understanding of historical, contemporary and future-directed social realities’ (Maclean, Harvey, & Clegg, 2016, p. 609). We were attracted to the Greenbury committee as a site of elite deliberations, within what Bourdieu (1996) calls the ‘field of power’, about a matter of societal relevance, the legitimacy of escalating executive rewards. The importance of such deliberations is that they constitute formative, future-facing responses to a perceived threat to the ‘right to rule’ enjoyed by allied economic and political elites (Price et al., 2018). Greenbury, in championing the twin notions of the remuneration committee as an independent mechanism for executive pay determination and disclosure as a potential source of shareholder control, offered a few apparently important reforms that did not however disrupt the elite’s dominating role in corporate governance structures (Nordberg & McNulty, 2013). In conducting in-depth research on a single event in the past which has received relatively little direct attention, we followed a micro-historical approach, examining a general phenomenon through the lens of a singular occurrence (Davis, 1983; Ginzburg, 2013). The analytical processes in which we engaged during our research, together with their associated purposes and outcomes are outlined in Table 1. These relate to processes of sequencing, whereby we established the chronology and relative significance of events; contextualizing, whereby we attempted to locate events in their situated contexts; exploring, whereby we actively sought to make causal links between actors, events and their ensuing outcomes; and interpreting, whereby we sought to reveal wider meaning from interrogating this specific case.

[TABLE 1 ABOUT HERE]

Fundamental to historical organization studies is the gathering of primary data from documents and oral histories that might cast fresh light on the power-laden procedural and discursive processes fundamental to institutional change (Maclean et al., 2016). Unfortunately, there is little documentary evidence relating to the proceedings of the Greenbury committee and in (re)constructing the inside-story – sequencing, contextualizing, exploring and interpreting (see Table 1) – we had to rely near completely on the testimony of oral-history interviews with committee members and professional advisers, 10 in total (see Table 2). In addition, one committee member provided written answers to our questions, and we conducted four supplementary interviews with governance experts, two chairmen of leading UK FTSE listed companies, and two senior fund managers who provided an institutional investor perspective on UK corporate governance post-Greenbury. We were fortunate to collect data from all the living members of the committee, the sole exception being Sir Denys Henderson who was too ill to participate.

[TABLE 2 ABOUT HERE]

Corporate governance settings constitute, as Gendron (2018, p. 1) affirms, 'privileged sites' in which to examine power effects together with processes of marginalization. In conducting elite interviews, the relative status of the interviewee is an important methodological consideration that has received increasing attention in the methods literature (Buchanan & Bryman, 2009; Denzin & Lincoln, 2005; Empson, 2018). Interviewing elites presents many opportunities for potentially rich and detailed findings given their structural proximity to government and their wide societal influence (Dexter, 2006). However, it also raises challenges, including those of access and reliability. The existence of barriers to keep critics at bay is partly what defines a community as 'elite' in the first place. To overcome this problem, the authors capitalized on their status as neutral university researchers to gain access (Rice, 2010).

As experienced communicators, the interviewees had the skill, when sensing danger, to close off or truncate potentially critical lines of enquiry. Such behavior, however, was not typical. Most interviewees felt the passage of time had given them license to speak openly about their recollections of context, events, personalities, group dynamics, issues debated and recommendations emerging. This enabled us to triangulate the statements made in different interviews to put together a historically trustworthy narrative, one of the conditions of the *dual integrity* – faithfulness to historical sources allied to conceptual rigor – that characterises historical organization studies (Maclean et al., 2016, p. 616).

Our semi-structured interviews followed a standard pattern. The first set of questions concerned the circumstances surrounding formation of the committee and the recruitment of members and advisers. A second set of questions concerned committee processes, origin of ideas, evidence, opinions, influences, debates, disagreements and the crafting of the report and recommendations. A more challenging third set of questions concerned the personal role played by the interviewee, the consequences of Greenbury, and reflections on participation in a historically significant event. In effect, the third set of questions, which began by asking interviewees to reflect on a graph showing the escalation in CEO pay post-Greenbury (see Figure 1), was calling them to account, to voluntarily disclose their thoughts and feelings on sensitive matters (Lowenthal, 2015, pp. 72-79). This, as we intended, enabled the creation of a richer, more nuanced dataset (Tanggaard, 2007, p. 172). This said, it is important to bear in mind that all oral-history testimonies are more or less tainted by retrospective sensemaking and therefore cannot fully capture the empirical specificity of the past. Viewed in this light, there is a danger that the accounts rendered by interviewees may represent a form of rhetorical history (Suddaby, Foster, & Quinn Trank, 2010), using the past instrumentally to help manage the future (Shrives & Brennan, 2017). This being said, our general impression is that each of the interviewees gave what they believed to be a true account of the workings and deliberations of the study group and the role they played in it.

[FIGURE 1 ABOUT HERE]

The interviews typically lasted an hour and a half, although that with Sir Richard Greenbury lasted over three hours. All interviews were recorded and transcribed producing a data set of over 100,000 words that was axially coded (using NVIVO as a research tool) to reduce the number of germane categories of discourse to a manageable number (Strauss & Corbin, 1998). Broadly, answers to our first set of questions were used to explore the historical context in which Greenbury was established and reported. Answers to the second set of questions were used critically to analyse the discourse of the interviewees and unearth the logic of making disclosure central to the Greenbury recommendations (Fairclough, 2003; Weiss & Wodak, 2007). In this we follow the analytical method pioneered by Gioia (Gioia, Corley, & Hamilton, 2012), which focuses on the *processes* through which organizational outcomes unfold (section 5 below). Answers to the third set of questions were used to analyse the retrospective sensemaking of Greenbury committee members and professional advisers (Maclean, Harvey, & Chia, 2012; Malsch, Tremblay, & Gendron, 2012) (sections 6 and 7 below).

5. Discursive construction of disclosure as an institutional fix

Control of discourse is of central importance in the process of change (Golant, Sillince, Harvey, & Maclean, 2015; Suddaby & Greenwood, 2005). In our research, the focus is on how the Greenbury committee through discourse conceived its solution to the prevailing crisis of authority in UK corporate governance. The logic at work is displayed in Table 3, in which seven regularly deployed discursive devices (second-order themes) – namely scapegoating, partial acceptance of criticism, negating alternatives, normalizing assumptions, appealing to principle, affirming traditions, and stating credentials – are mapped to three discursive strategies (aggregate themes): deflecting criticism, mobilizing support, and establishing legitimacy. Each second-order theme is illustrated by a text segment typical of the remarks made by interviewees.

[TABLE 3 ABOUT HERE]

It is important to remember when reading the illustrative quotations reproduced in Table 3 that our interviewees were elite corporate actors with a strong vested interest in restoring moral authority to the UK system of corporate governance. Members were ideologically bonded and understood their role as *defenders of the system*, a system perceived to require improvement but not radical change. This stance was affirmed by one professional adviser appointed 'to work closely with Rick [Greenbury, as chairman] to ensure he stuck to the party line' (professional adviser A), which was to concede that pay had 'gone up and [was] increasingly disproportionately' (committee member A), but that the problem was not endemic and might be solved by taking the 'opportunity … to self-regulate' (committee member E). Thus, by condemning the 'excessive' pay awards recently granted to CEOs of privatized utilities, Greenbury found a convenient scapegoat on which to *deflect criticism* (Greenbury, 1995, s.8, pp. 49-52). As one committee member recollected:

> '[Greenbury] was to get the government out of a political mess, the utilities had been privatized and the pay was getting ramped up. British Gas! Government didn't want to regulate, government said, "do self-regulation", put everything together, put them in a room and wait and see what comes out' (committee member C).

The same member readily accepted that executive contracts had become outdated, failing to link pay with performance, with long notice periods written into CEO contracts that resulted in high termination costs. In this way, criticism was deflected away from high pay *per se* toward the need to justify high pay with commensurate performance. His declared objective was to 'make the pay of these agents of shareholders have some sort of basis in reality, as a reward for doing the job' (committee member C).

Deflecting criticism was a prelude to *mobilizing support* for alternative solutions to the adverse consequences of escalating executive pay. An essential step in the discursive process was to *negate alternatives* like government legislation to limit executive pay. On this matter, members of the committee were entirely united, understanding their role as heading off any move toward heavy-handed state interference. As one member recalled:

> ‘I was aware that if Greenbury had not come out with his code that threat of political intervention was very substantial. There’s no doubt that there would have been political action. No one actually waved a red flag and said “if you don’t do this”, but I think there was an awareness that if Greenbury did not come up with some sensible recommendations then something else would get there first’ (committee member, F).

What is interesting here is that study group members, as like-minded members of the business elite, understood what was required of them without explicit discussion of the threat facing the existing governance regime.

The key issues confronting the committee therefore were (1) how to contrive, and (2) sell a solution to the executive pay crisis within the existing framework of self-regulation. The idea of disclosing top executive remuneration as an instrument of accountability may have been novel in the UK context, but it was familiar to several committee members through experience of US practice. The combination of LTIPs, remuneration committees, pay consultants and disclosure was in effect a readymade solution, and it had a champion in John Carney, Managing Director of remuneration consultants Towers Perrin, professional adviser to the committee. As professional adviser C confirmed, ‘American pay models were attractive, there was a feeling the US was very successful and should be emulated.’

Mobilizing support within and beyond the committee was achieved through the deployment of three discursive devices (Mueller & Whittle, 2011). Having *negated alternatives* involving state intervention, disclosure of information and transparency in pay-setting processes emerged as a linchpin of the proposed reforms. Professional Adviser C recalls the mood at a study group breakfast meeting when the key decision was taken to recommend ‘frank and full disclosure’ as the key recommendation:

> ‘It was like the tide of history, it was such like, you know, this had to happen because we were seeing too many abuses. We thought we needed to have the oxygen and the light and that this is the only way we could set it up … I had a colleague here draft up the form for disclosure which was adopted by the committee’ (professional adviser C).

Recommending disclosure, being more transparent about pay, served the vital discursive function of *appealing to principles* of openness, fairness and best practice, lending a singular rhetorical advantage to the proponents of self-regulation.

Beyond disclosure, in *normalizing assumptions* about shareholder primacy and the critical role of CEOs in determining corporate performance, the study group confirmed its commitment to the idea that potentially conflicting interests of agents and principals might be reconciled through optimal contracting. Under this rationale, the problem of high pay evaporates when executive pay is sensitive to corporate performance, again *appealing to principle*. Hence Greenbury's championing of LTIPs and performance sensitive executive pay. As one member of the committee recalled:

> '[My] agenda was to get companies to think about they wanted to do. To tell shareholders this is what we think you want us to do, tell us if it's not, these are our operating objectives, we will now encapsulate them with the help of the remuneration consultants in a proper set of objectives and remuneration targets linked to the objectives – that was number one in my list' (committee member C).

Thus, by appealing to the principle that remuneration committees would only sanction exceptional rewards for exceptional performance, Greenbury sought to dissipate the prevailing mood that personal greed had triumphed over public good, in the process mobilizing support for the study group's recommendations.

That this argument was made by a group of senior business leaders responsible for Britain's largest firms and led by Sir Richard Greenbury, was fundamental in *establishing legitimacy* (Suddaby & Greenwood, 2005). Even the most cynical of media critics and anti-corporate politicians tend to find it difficult to resist pragmatic arguments for continuity, especially when they are advanced by reputable members of the dominant elite (Maclean, Harvey, & Chia, 2010). *Stating credentials* was thus important in creating an aura of expertise and control around the committee's work. In addition to the inclusion of key stakeholders such as the UK's National Association of Pension Funds (NAPF) and the

Association of British Insurers (ABI), the selection of Greenbury to lead the committee was critical, in that he personified stability and honesty. Greenbury was a man who had demonstrated he was in business for the long term; having served his entire career at Marks & Spencer, starting as an apprentice in 1952, before working his way up to become the first non-family CEO of the company, which constituted one of the UK's most cherished brands. As Mowbray (1995, p. 3) puts it, '[Marks & Spencer's is] the high-street incarnation of our values and aspirations… synonymous with service, organisation and trustworthiness'.

To maintain the 'party line' that self-regulation was better than legal intervention meant the committee's recommendations had to be accepted by stakeholders as authoritative. Capture and control of the discursive process was essential to maintaining the *status quo* (Jørgensen & Phillips, 2002, p. 63). *Affirming traditions*, invoking strong feelings of identification, can serve as a herald to the new whilst resisting wholesale change (Golant et al., 2015). This is the device at work here:

> 'Our system over a couple of centuries has been self-regulatory in the broadest sense of the word to avoid having to put things into law because they're immediately out of date and smart people will get around them ... self-regulation is always the most efficient regulation' (committee member F).

The model presented in Figure 2, derived inductively on the basis of the analysis presented here, proposes that the three rhetorical strategies in play within Greenbury, when combined, formed a persuasive rationale for the establishment of remuneration committees composed of independent directors, more extensive use of LTIPs, and disclosure of top executive rewards. The origins of the committee lay in the crisis of moral authority manifest in public anger following revelations that 'the snouts of British bosses were too deeply or too blatantly in the trough' (Basset, 1995, p. 34), which stirred the ruling elite into action in the form of Greenbury. Anointed by the CBI, the committee effectively claimed it had the right people to proffer a sound solution to the nagging problem of top executive pay, making an already sound system even more robust. Its arguments proved persuasive and its recommendations were accepted, thereby ostensibly restoring moral authority to leading actors within the UK governance regime.

[FIGURE 2 ABOUT HERE]

6. Retrospective sensemaking of knowledgeable agents

Our interviews with members of the Greenbury committee and its professional advisers included, as mentioned, the presentation of a graph showing a substantial increase in mean executive pay following the adoption of the Greenbury code. Although the sharply upward trajectory of the graph came as a surprise to some, all were aware of the general trend in executive remuneration since the committee reported in 1995. The escalation in executive pay, of course, had been widely reported in the media (Thompson, 2005), with the High Pay Centre computing in 2013 that 'the ratio of CEO pay to the average worker has risen from 47:1 in 1998 to 133:1 in 2012' (High Pay Centre, 2013).

Each interviewee was invited to discuss this change in rewards in the light of the Greenbury provisions. Committee member H spoke for the majority, opining that 'the executives are constantly taking more and the shareholders are getting less', a view endorsed by committee member F, who concluded that executive pay 'is operating against the shareholder now.' On observing the graph, committee member B conceded that the Greenbury code 'had the opposite effect to that which we intended. No question'. Committee member C agreed, stating that it was:

> 'Appalling. It clearly wasn't the idea of the committee. These were unintended consequences. Nobody can dispute that pay has gone up increasingly and disproportionately... nobody thought of what the consequences would be in terms of [the trend revealed by the graph].'

Committee member D's belief was that 'it certainly didn't have the moderating effect [on executive pay] many might have hoped for.' Committee member A commented that:

> ‘It’s a clear criticism of transparency, and it was something I was worried about. My recollection was that it was raised by David Simon [CEO of BP], I think, who was worried about everyone seeing each other’s pay’ (committee member A).

When committee member A asked the chair of one remuneration committee why the CEO had been awarded a large pay increase, he was told that ‘the simple answer is [that because of disclosure] he knows what people in the US are earning and all the other companies, and he doesn’t want to earn less than they do’. Committee member G observed that when remuneration reports were read by other top executives, ‘nobody says, “Oh, I’m paid more than him”… everybody says, “I’m paid less than him and I’m worth more.”’

The discussions that took place at meetings of the committee about the role of remuneration committees were focused on the necessity for shareholders and other stakeholders to see that they functioned in a fair and principled manner to control executive pay. Committee members felt with hindsight that remuneration committees had done good work and had good intentions, but conceded that the goal of moderating executive pay had not been achieved: ‘it looks like a system which has the greatest of integrity but the way it actually operates is different’ (Professional Advisor C). In another telling example, committee member B elaborated on a recent conversation prior to a meeting of the remuneration committee of a large FTSE-100 organisation which routinely paid 10% above the median level:

> ‘[The chief executive would say] “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 B).

Members also thought it likely that remuneration consultants, through the production of comparative statistics and sophisticated LTIPs, had played a role in escalating rewards throughout the period, as committee member E elaborated:

> ‘Unfortunately, one of the unintended consequences is that they [the remuneration consultants] are holding the pen in the writing of remuneration reports because

> everybody is so scared of these policy documents, that they are defaulting to the consultants writing large chunks of them' (committee member E).

Although the practice of employing remuneration consultants was relatively common in the UK prior to 1995, Greenbury normalized the use of outside consultants (s.4), which, in hindsight, may have contributed to pay escalation, as professional advisor A acknowledges: 'You always pitch yourself in the highest quartile. The paradox here is that this sort of visibility is actually driving an escalator in pay, which is poor value for shareholders'. Chairman A, an incumbent chair of a major FTSE 100 organisation, corroborates this point:

> 'If you really analyse it [remuneration packages] and value it in immense depth, and lots of remuneration committees haven't got the time or the energy to do that, you are being misled. I think the Towers Perrins and the New Bridge Streets [remuneration consultants] are a seriously pernicious influence on this market' (chairman A).

Committee members accepted that disclosure had generated an unexpected and unwelcome ratcheting up effect; one of the unintended consequences of regulation that Murphy and Jensen (2018, p. 2) argue 'have substantially damaged the efficacy of CEO pay practices in the US.' The non-executive chairman of a major British FTSE listed company, interviewed for our research, though not a member of the Greenbury committee, claimed that 'this pernicious system has driven completely new behavior which is not helpful, and it's helped to crack the trust between the shareholders and the executives' (chairman A). Yet it is generally agreed that institutional investors are in the main disengaged owners and that some do not perceive a problem with executive pay, since they themselves earn still larger sums (Tilba & McNulty, 2013). Committee member G agreed: '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'. All these factors had conspired, concluded one committee member, to fuel the ratcheting up of executive pay:

> 'The substantive unintended consequence of Greenbury was that the requirement for transparency in executive directors' remuneration, coupled with the proliferation of consultants in the area, together with the virtual impossibility for any remuneration committee to adopt a policy skewed towards the bottom rather than the top "quartile",

> has led to an inevitable onward-and-upwards momentum. Add to that the fact that the senior executive cadre of institutional shareholders, who are meant to be the guardians of propriety in remuneration matters, are largely *parti pris*, and there you have it' (committee member, H).

With regard to the revolving composition of share registers and the associated lengthening of investment chains since the publication of the Greenbury report, professional advisor C commented on the differences between shareholders now and in 1995:

> 'Of course, Greenbury was quite a charming document in some ways because … There is this theme behind it which is, 'we're 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' (Professional Advisor C).

Indeed, the structural evolution of agency relationships was the impetus for the review conducted by Kay (2012, p. 30), who argued that 'the imperatives of the business model of the agent, do not necessarily coincide with the interests of the ultimate principals'. The growing opacity of ownership causes the relationship between principal and agent to weaken, contributing to the perceived dilution of accountability. Rather than the 'ongoing requirement of stewardship', Kay observes (2017), the skills of UK fund managers 'are largely those of attempting to outguess each other in the anticipation of short-term market movements.'

More shareholder engagement is often perceived as 'an end in and of itself' (Sheehan, 2012, p. 8), yet as committee member G emphasized, '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 that he and his father built'. Committee member H agreed, adding that:

> '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. I remember the case in the 1990s of two non-executive chairmen. One of them was paid about £20,000 and he saw a direct competitor who was paid £250,000… he just didn't believe it. He said, "He's useless, I should have that [same amount of money]." So, there is this unintended consequence, but I think there was a belief that by exposing things people would behave more correctly, and, actually, it seems to have had the reverse effect' (committee member H).

Likewise, committee member G concluded that ‘if you look back over history and you look at the figures, what has [the Greenbury] regulation done? Board remuneration has increased’. Committee member D concurred, pointing out that ‘the general hope that this would lead to moderation and that [disclosure] would have a restraining effect has proven ill-founded’. Another concluded that the committee had been a failure:

> ‘One of the great disappointments I have is that I think the committee failed. The average top twenty chief exec now earns four and a half million [pounds] a year, and I know several that are earning two or three million a year and are running businesses that make considerably less money [profit] than they did twenty years ago. It’s nonsense. So, we didn’t achieve anything’ (committee member E).

An important conclusion emerging from these retrospective accounts is that the report’s recommendations, especially those pertaining to the mechanism of disclosure, served to promote an ‘illusion of control’ over levels of remuneration, reinforcing a myth of controllability in corporate governance (Tremblay, 2012). Clearly, committee members genuinely believed that their recommendations would in time be effective in moderating remuneration levels. It therefore came as a surprise to all members that unintended consequences, human failings and unforeseen financial market developments had conspired instead to produce an outcome so at variance with the committee’s intent.

7. Accountability and executive remuneration

Phronetic social science, Flyvbjerg (2001, p. 156) suggests, provides an antidote to the ‘so what’ response to research by feeding back to stakeholders contextually sensitive findings, enabling judgement to be ‘cultivated and communicated via the exposition of cases’ (pp. 135-136). How, then, might the results of our micro-historical case study contribute to the on-going debate on executive remuneration? The answer, we believe, following Dillard and Vinnari (2017) and Gendron (2018), is to recognize that our duty as critical researchers is not simply to specify problems but also to intervene by proposing solutions. Greenbury, it is now evident, as an exercise in increased accountability, failed to achieve its primary objective of restoring order and a sense of fairness in the executive pay-setting process. Rather, disclosure has contributed to the continued escalation in executive rewards. Hence we propose four general conditions that should apply if the accountability relationship between companies (supply side) and stakeholders (demand side) is to be strengthened and rendered more effective.

The first condition is that *the demand side must be motivated to hold the supply side to account.* Roberts and Scapens (1985, p. 447) argue for 'the giving and demanding of reasons for conduct', while Gray, Owen and Adams (1996, p. 38) see accountability as 'the duty to provide an account… or reckoning of those actions for which one is held responsible.' Prior research on institutional investors and the changed finance sector landscape, however, suggest that it is misplaced simply to assume that the demand side is motivated to make demands on the supply side (Wong, 2010; McEnery et al., 2011; McNulty & Nordberg, 2016). Evidence from our research provides insights into why this condition has not been met in the case of executive remuneration. Committee member F observes that 'on far too many occasions shareholders abstain' from voting on remuneration matters. Committee member E agreed that shareholders were remiss in this regard: 'as long as they're making money, the shareholders, in my opinion, do not exercise their proper authority in this matter'. Professional adviser A considered this a significant issue:

> 'There is a big issue which should be directed at the major institutions, because there is no doubt that pay today is extremely high for people sitting in the boardroom, and the issue is, the disclosures are there for the shareholders to say: "up with this we will not put". But they don't… It requires quite a lot of organization to make a meaningful impression on the negative vote ... shareholders have tolerated some quite extreme cases of [remuneration] abuse' (professional adviser A).

Committee member D remarked that 'shareholders weren't very good at playing their part' in the accountability relationship because top executive pay 'doesn't have that much effect on the profits or the dividends of investors, so they don't put a lot of effort into it'. Committee member G agreed that the quiescence of shareholders was problematic: '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 wayside'. Similarly, professional adviser B concluded that 'the vast majority [of shareholders] don't give a damn nor do the hedge funds give a damn about this sort of stuff'. Committee member F was more circumspect in remarking that some shareholders do 'give a damn, but they don't give enough of a damn'.

Committee member B felt that it was a case of 'people in glass houses shouldn't throw stones' because fund managers, when confronted with evidence of excessive executive rewards, lacked the moral authority to intervene as they are often 'paid just as much as those on whom they sit in judgement'. Another reason for a lack of interest on the part of shareholders, Committee member B proposed, was the sheer volume of information contained in annual reports. He felt that 'too much regulation results in too much disclosure and can lead to loss of interest on the part of all but the most assiduous of shareholders'. It seems that the foundations of the accountability relationship are much weaker than assumed by Greenbury. Disclosure may be a necessary condition for more effective accountability, but it is not sufficient; it is a complement not a substitute for real engagement by owners with the processes and obligations of corporate governance.

The second condition for more effective accountability is that *the demand side has the right information needed to hold the supply side to account*. Much of the debate on accountability is founded on the belief that provision of more information axiomatically will lead to increased accountability. Gray, Bebbington, and Collison (2006, p. 336), for example, state that 'accountability can be considered discharged if the information can be obtained through an existing channel'. Gray (1991, p. 415) proposes that the 'development of accountability also increases the transparency of organisations'. Broadbent, Dietrich and Laughlin (1996, p. 276) suggest that accountability will be enhanced by 'allowing access to the debate by all stakeholders ... to present their views and to challenge the views of others'.

As we have seen, however, the assumption that lack of relevant information limits accountability and, *ipso facto*, that more information must facilitate increased accountability is open to challenge, theoretically and empirically. Indeed, Murphy and Jensen (2018, p. 34), on the basis of US experience, suggest that important but often ignored costs of disclosure must be weighed against the benefits (better monitoring of directors) in determining the optimal amount of pay disclosure for top managers.

The research of Harris and Bromiley (2007), *inter alia*, suggests that more information does not always increase accountability because 'information' can be used to mislead as well as illuminate. The implication is that more attention needs to be paid to the specification of what is disclosed and how this information enables performance to be accurately evaluated. In the words of committee member C:

> 'How many companies straightforwardly say to shareholders: "This is what we are trying to achieve and what, as a board, we expect to be measured on, so that at the AGM you can then hold us accountable". How many? Very, very few. So much gets lost in the fog of carefully selected words and numbers' (committee member C).

This point is brought home forcibly by the economist John Kay (2017) in his written evidence to the UK Parliament's Business, Energy and Industrial Strategy Select Committee's review of corporate. In this he argues that 'the attempt to impose a standard reporting template across the whole corporate sector has led in practice to very lengthy reports, much of which is boiler-plate, and which conceal rather than highlight relevant information.' He recommends that 'corporate reporting should increasingly be … a matter of negotiation between investors and companies, with an eye on key performance indicators, rather than the subject of one-size-fits-all regulatory prescription.' Leong and Hazelton (2019) likewise argue that 'making disclosure mandatory in and of itself will not help drive desired social changes', which 'will only be driven if users … receive information relevant to their goals and are able to translate it into political action.'

Our third condition is that there must be *shared understanding against which demand* *side actors collectively agree to hold to account*. Our research suggests that we are far removed from meeting this condition. A senior fund manager, not a member of Greenbury, admitted at interview that 'there is no collective punishment' for failure and a coordinated response is unlikely 'unless maybe you have three profit warnings in three years or if the chairman gets arrested for corruption' (Fund Manager A). Another fund manager emphasized the primacy of financial results over concerns about executive rewards, asking: 'Would I sell Sainsbury's stock just because I thought the CEO was being paid too much? No' (Fund Manager B). The conclusion we draw is that many institutional investors tolerate high levels of pay even when not fully justified by performance provided that returns remain at an acceptable level, diminishing the possibility of a collective response to perceived excesses. In explaining the inability of shareholders to act collectively, one company chairman observed that since Greenbury 'shareholders have become more diverse' with a much lower concentration of ownership among pension funds (chairman B). This is confirmed by the UK Office for National Statistics (2012), which reports that in 1998 pension funds owned 21.7% of UK shares but that by 2010 this had declined to just 4.7%. Committee member D insisted that 'it's quite a lot of work for a pension fund to study [executive remuneration in detail] … and then decide whether or not to campaign against the remuneration of this firm or that firm', essentially suggesting that high monitoring and intervention costs are partly responsible for the reduced ability collectively to hold to account.

The fourth condition for increased accountability is that *the demand side must have the power to punish underperformance against metrics and standards agreed in advance with the supply side*. According to Day and Klein (1987, p. 5), an accountability relationship 'presupposes agreement about what constitutes an acceptable performance [including] the language of justification'. This suggests that at the individual level, in a high rewards environment, failure to achieve agreed goals and targets should lead to bonuses foregone, stock options rescinded or loss of office. In practice, such sanctions are reluctantly invoked. Shareholders on occasion vote against remuneration proposals, but in such cases the typical response is for remuneration committee simply to return with revised packages more in line with shareholder expectations (Conyon & Sadler, 2010). Even more rarely have shareholders shown much willingness to sell large tranches of stock to signal disapproval, which is problematic for index investors since they must hold everything in the index. Committee member E discussed potential use of sanctions in terms of ‘pulling the plug’, by which he meant shareholders using their voting rights to outlaw or challenge high pay awards. As he expressed it:

> ‘We’re in the mess we’re in now because the shareholders haven’t pulled the plug. They should have pulled the plug way back in the ’90s. From 1995 onwards, they could have done so, but they chose not to. If we’re really blunt about it, if you look at what the bankers were earning, why didn’t they pull the plug?’(committee member E).

We can surmise that this is because shareholders lack the motivation and capacity for collective action needed to call the supply side to account.

Measured against the ideal suggested by the four conditions we propose as necessary for increased accountability, the dynamic post-Greenbury is one of a progressively widening disparity between ideal and actuality. Cooper and Owen (2007, p. 653) argue that ‘if accountability is to be achieved, stakeholders need to be empowered such that they can hold the accountors to account’. How, we ask, might this be accomplished when institutional investors exhibit so little interest in playing their part in calling agents to account?

8. Discussion and conclusion

We have shown that in the case of executive remuneration, the idea that disclosure alone is an effective instrument of corporate governance is flawed. Disclosure, in our view, is a necessary but not sufficient condition for effective accountability. Everett, Neu and Rahaman (2007, p. 524) correctly discern that the term accountability is used in a loose fashion in the literature, and that the assumed relationship between increased disclosure and enhanced accountability fails to live up to its promises. In some situations, as in the case of executive rewards, there appears to be a deficit of effective accountability in which shareholders fail to hold boards to account for their rewards, which, in many cases, are weakly associated with performance or value to shareholders. Gendron (2018, p. 1) has enquired in the pages of this journal, 'corporate governance for whom; and corporate governance for what?' The answer suggested by this research is that the remuneration provisions introduced by Greenbury have served executives well by sanctioning ever higher levels of compensation, to the detriment of other constituencies, including shareholders, government, and the general public (Clarke et al., 2018). In short, corporate governance in the case of Greenbury has benefitted executive agents while neglecting the interests of a range of other stakeholders (Collinson, Cross, Ferguson, Power, & Stevenson, 2014). This, we suggest, is a matter of public interest (Riotto, 2008); highlighting the potentially critical role that research can play in informing policy-making debates. It is all the more a matter of public interest, we suggest, because the Greenbury provisions have been imported elsewhere, into other fields, including academia, where in the UK Vice Chancellors' pay has become something of a *cause célèbre*, as top-earning academics have sought to emulate remuneration patterns typical of the private sector (Chakrabortty, 2017). Our study therefore represents a persuasive illustration of the limitations of neoliberal, 'soft' regulation, as epitomized by the Cadbury-inspired precept 'comply or explain' (Sikka & Stittle, 2018).

Although 'accountability', alongside 'transparency' (Nielsen & Madsen, 2009), remain prominent shibboleths of present times, evidence from this research suggests that lack of effective accountability has contributed to widening the gap between top executive pay and the incomes of ordinary employees, with little appetite displayed for calling boards to account on pay levels *per se*. As in the US, 'the outcry over excessive executive compensation is not emanating from shareholders, but from other groups' (Murphy & Jensen, 2018, p. 3). Before the publication of the Greenbury provisions, King (1992, p. 9) noted that 'lack of accountability confers serious consequences. There is abuse of unchecked power [and] management is rewarding itself for bad performance'. It has been assumed for too long that all that needs to happen to enhance accountability is to increase the quality and quantity of information disclosed by companies to stakeholders, upon which information different constituencies can hold companies to account, for, say, failing to meet previously disclosed standards or similar. This assumption is contestable, however, inasmuch as a number of conditions need to be satisfied before an accountability relationship can be deemed to be effective. The increased heterogeneity of shareholdings among public companies has made meeting these conditions more problematic, such that the effective accountability of boards to shareholders has receded.

Our micro-study of the backstage work of the elite actors responsible for elevating and perpetuating the myth that pay disclosure might increase the accountability of corporate executives and boards has afforded a rare opportunity closely to study the role of power and politics in corporate governance reform. At the beginning of this article we posed three research questions. First, how did the Greenbury committee come to recommend disclosure as the best means of justifying and controlling the remuneration of top corporate executives? Our answer is that the crisis of moral authority provoked by public antipathy towards runaway top executive pay stirred elite politicians and business leaders into action in defence of the UK system of corporate governance. Greenbury followed the US in proposing remuneration committees backed by disclosure as a readymade institutional fix justified discursively through a combination of three rhetorical strategies in support of incremental change, disclosure serving to restore the moral authority of UK corporate governance while obviating radical reform. Second, how do the knowledgeable agents responsible for the

Greenbury recommendations explain the post-Greenbury escalation in top executive pay? Our answer is that retrospectively they felt blindsided by the readiness of executives to game the system and break faith with an accountability relationship they had presumed was strong but in fact was weak and getting weaker. Committee members erroneously presumed that disclosure would have a shaming effect, but instead it heightened awareness of relativities and fed the calculation of self-interest. There is an element of moral self-justification in play here because the Greenbury recommendations ultimately were not inspired by ethics, but by elite solidarity in an ideological defence of self-regulation, on the basis that, as committee member F bluntly put it, 'if Greenbury did not come up with some sensible recommendations then something else would get there first'. The committee made no attempt to control absolute levels of pay, but merely to shape who was involved in the pay-setting process. Third, how might our findings and those of other researchers contribute to achieving a more effective form of accountability? Our answer is that we contribute to discussions on corporate governance and accountability by demonstrating that the assumption that more disclosure leads automatically to increased accountability is erroneous. We suggest that disclosure post-Greenbury has stimulated rather than moderated the ratcheting up of executive pay.

Building on prior research (Cooper & Owen, 2007; Messner, 2009), we propose four conditions which we suggest should apply for this situation to be remedied. These conditions are: first, there should be an appetite to hold to account; second, the demand side should possess the requisite information with which to hold the supply side to account; third, there should be shared understanding against which demand side actors collectively agree to hold to account; and finally, the demand side must possess the necessary power of sanction to punish underperformance against agreed standards. Failure against these conditions may explain why the desired increased accountability in this area has failed to materialize thus far. What are the implications? Our research shows how the business elite of Britain and its political allies exercise power through control of governance processes and the discourse of corporate governance, preserving self-regulation and limited state intervention as an ideal. The UK has become institutionally path dependent, wedded, as elsewhere, to the soft model of corporate governance introduced by Cadbury and progressively refined over three decades.

The existing model of corporate governance based on agency assumptions now seems outdated, out of tune with the realities of twenty-first century capitalism, incapable of 'reining in or mitigating many of the imperfections, anomalies or fragilities of corporate behavior' (Gendron, 2018, p. 2). With the balance of power in agency relationships seemingly having shifted in favour of agents (corporate executives and financial intermediaries) who extract high rates economic rents irrespective of performance, a more effective accountability relationship is little in evidence and a re-conception of that relationship seems long overdue (Clarke et al., 2018; Sikka & Stittle, 2018). How, then, might path-breaking reform be achieved? The main lesson of this research is that there is too much at stake in corporate governance to trust entirely in self-regulation. To deliver the four conditions for more effective governance specified here will require, given present trends, the establishment of a permanent corporate governance commission, representing multiple stakeholders, with convening power and the authority needed directly to call boards and top executives to account. Without central regulatory oversight and enforcement, we can expect little more than cosmetic changes to the present system as the corporate elite conducts 'business as usual', empowered by such institutionally embedded myths as pay-for-performance, elevated by Greenbury and since perpetuated by a slew of insider reformers. We agree that 'what is principally required is a cultural change' to combat the 'problems of short-termism, which is the essential precondition for change' (Kay, 2017). We believe, however, that this can only be accomplished by potentially powerful others – politicians, unions, journalists and academics – acting in concert, exercising voice and engaging directly in the struggle for a system of corporate governance that serves the many, not just the few.

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Tables and Figures

Table 1. Analytical processes in micro-historical organizational research

Process	**Purpose**	**Product**
Sequencing	Establishing chronology and relative significance of events	Chronologically ordered narrative
Contextualizing	Locating events in their situated context(s)	Contextually situated narrative
Exploring	Seeking causal connections between actors, actions, events and outcomes	Causally explained narrative
Interpreting	Uncovering wider meaning from interrogation of specific case	Conceptually interpreted narrative

Table 2. Greenbury committee actors and elite positions

Actor Name	**Corporate Role(s) in 1995**	**Extra-Corporate Role(s) in 1995**
	Members	
Greenbury, Sir Richard *Interviewed*	Chairman and CEO, Marks & Spencer plc; Non-Executive Director (NED), AstraZeneca plc; NED, Lloyds Bank plc	Trustee, Royal Academy; Trustee, Samaritans
Angus, Sir Michael *Not interviewed (d. 2010)*	Chairman, Whitbread plc; Chairman, Boots plc; NED, British Airways plc, NED, National Westminster Bank, plc; NED Royal Automobile Club Holdings Ltd	Governor, London Stock Exchange; Member, European Round Table of Industrialists
Chapman, Sir David *Interviewed*	Wise Speke Ltd (Stockbrokers) Newcastle; NED, Brewin Dolphin [wealth management]	Chairman, Confederation of British Industries (CBI) North East Regional Advancement Group; Board, Northumbria Coalition Against Crime
Henderson, Sir Denys *Not interviewed (too ill to participate at the time of the interviews)*	Chairman, Rank Organisation plc; NED, Barclays plc; NED, Rio Tinto-Zinc Corporation plc; NED, Schlumberger Ltd; Director, Market and Opinion Research International Ltd	Chairman, Crown Estate Board of Commissioners; Board, CBI; Member: European Round Table of Industrialists
Lees, Sir David *Interviewed*	Chairman, GKN plc; NED, Tate & Lyle plc; NED, Courtaulds plc; NED, Westland Group plc; NED, AkzoNobel Ltd	Board, CBI; Member, European Round Table of Industrialists; Board, National Defence Industries Council

Lindey, Geoff *Interviewed*	Head of UK Institutional Investment, JP Morgan Investment Management Ltd	Chairman, National Association of Pension Funds Investment Committee; Board, Chartered Financial Analyst Institute
Melville-Ross, Tim *Interviewed*	NED, Monument Oil and Gas Ltd	Director-General, Institute of Directors
Metcalfe, George *Not interviewed (d. 2012)*	Chairman & CEO, UMECO plc; NED, Sailport plc	Board, CBI
Simon, Sir David *Interviewed*	Chairman, British Petroleum plc	Member, European Round Table of Industrialists
Vallance, Sir Iain *Provided written answers to questions*	Chairman, British Telecommunications plc; NED [vice-chairman], Royal Bank of Scotland; NED, Mobil Corp.	Board, CBI; Board, Business in the Community; Board, British-American Chamber of Commerce; Chairman, Princess Royal Trust for Carers
Walther, Robert *Interviewed*	CEO, Clerical Medical Investment Group; NED, JP Morgan Claverhouse Investment Trust	Board, Association of British Insurers
	Professional Advisers	
Edwards, Andrew *Interviewed*		Deputy Secretary, UK Treasury; Board, Royal Opera House
Grieves, John *Not interviewed*	Senior Partner, Freshfields [legal practice]	Board, British Invisibles [promotion of financial services overseas]
Jeffcote, Peter *Not interviewed*	General Counsel, Freshfields [legal practice]	
Maitland, Angus *Interviewed*	Chairman & CEO, Maitland [communications consultancy]	Board, Investor Relations Society
Carney, John *Interviewed*	Managing Director, Towers Perrin [remuneration consultancy]	
	Secretariat	
Lewis, Matt *Not interviewed*	KPMG [professional services]	

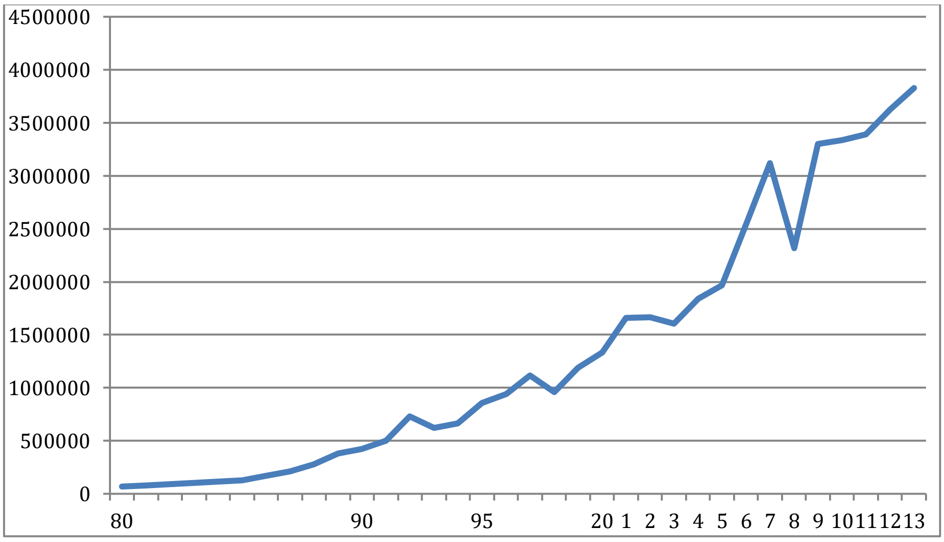
NB. Please note that the alphabetical letters used in the text to identify committee members do not reflect the order in which interviewees are enumerated here.

Table 3. Greenbury discourse of remuneration disclosure

Illustrative quotations (CM = Committee member; PA = professional adviser)	**Discursive devices**	**Discursive strategies**
• The major problem was the privatized utilities … emerging from monopolistic positions … where huge sums of money were being paid out.' PA, A. • 'There were two abuses; one was the money former civil servants made out of the privatization of the utilities, and the other was very large payoffs people had received for failure.' PA,C	Scapegoating	Deflecting criticism
• 'Contracts were not clear enough at that stage and they needed tightening up, specifically as regards the notice period.' CM,D • 'Contracts had to be made shorter and if they weren't shorter, termination payments should be reduced.' CM,G	Partial acceptance of criticism	
• 'The solution was not to put in loads of legislation, which would have been a pointless exercise, but to be totally transparent about it all in terms of disclosure.' PA,B • 'The spiel to me was we really have to make sure this is being handled in political terms before someone takes it out of our hands and makes bad law.' CM,F	Negating alternatives	Mobilizing support

• ‘Friedman says that any money that gets paid out to anyone other than shareholders is theft from the shareholders and that is a very reasonable approach.’ CM,A • ‘The impact a chief executive can have on a FTSE 100 company is absolutely enormous … you pay what you have to pay. I would not be concerned about the overall level on which they’re paid.’ PA,C	Normalizing assumptions	
• ‘On the principle that something must be done, the committee went with the recommendation of greater disclosure, simple as that.’ CM,B • ‘For me the key element was that bonuses should be subject to “challenging performance criteria”.’ CM, G	Appealing to principle	
• ‘A self-regulatory process which says comply or explain seems to me to be quite sensible.’ CM, F • ‘Greenbury is self-regulation and I was aware that if [we] had not come out with this code that the threat of political intervention was very substantial.’ CM,E	Affirming traditions	Establishing legitimacy
• ‘We collected a group of people who represented all the interests – big shareholders, small shareholders – we had top people from every walk of life.’ CM,C • ‘I just think they wanted a guy like me involved as I was running [big company]. I probably had as much experience as only 3 or 4 people in the country about that whole package.’ CM,F	Stating credentials	

Figure 1. Highest paid director in UK companies, 1980-2013*



*Excluding pension contributions.

Figure 2. Discursive construction of disclosure as an institutional fix