



Negotiating out of the crisis Négociier pour **sortir** de la crise Negociar la **salida** de la crisis

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Executive compensation and the economic crisis

Abstract: This paper will outline the regulatory approaches to the issue of executive compensation since the start of the economic crisis. After describing developments prior to the crisis, the paper will outline the series of policy tools used to regulate the topic in the last few years. The paper will distinguish between ‘harder’ tools, ‘softer’ tools, and international level initiatives. Finally, the paper will assess the prospects of the G20 approach to the regulation of executive compensation that was developed in the course of 2009.

I Introduction

Of all the issues associated with the employment relationship and the wider field of governance that have arisen since the commencement of the economic crisis, few have attracted levels of press attention or invoked public anger to the same degree as the issue of executive pay (Guardian, 2009a). Criticisms of existing executive pay regimes have focused both on the social justice issues associated with the salaries of ‘top earners’ and the implications for good corporate governance. Specifically, pay policies involving multi-year guaranteed bonuses and multi-million dollar payments for the executives of ‘failed’ firms or those who have received public funding have been portrayed as excessive and inefficient. Further, the allegation that pay practices that were inconsistent with firm’s capital bases and that insufficiently linked pay to sound risk-taking were a key precipitating factor of the economic crisis has been made. Although there have been defenders of existing executive pay regimes, a consensus appears to have formed amongst the international policy community that the topic requires serious regulatory attention. In addition to numerous national policy initiatives on the issue, executive pay regulation was the subject of discussion and subsequent agreement at two G20 summits in 2009.

It is thus an auspicious time to analyze the issue of executive pay and its regulation before and after the economic crisis. This chapter will be divided into four sections. After the current (I) introduction, the chapter will (II) outline the traditional means of regulating executive pay and the socio-economic factors that led to the contemporary debates surrounding executive pay.

Then, the chapter will (III) outline the means of regulating executive pay that have been developed in the wake of the crisis. Here it will argue that the policy responses that have emerged may be classified according to three groupings. Firstly (i), there are those policies that involve ‘capping’ rates of executive pay. A second (ii) grouping of policy initiatives are ‘softer’ in their scope and impact. These typically employ techniques such as the establishment of greater shareholder rights to determine compensation levels, the limiting of practices such as multi-year guaranteed bonuses, and disclosure of compensation obligations to promote good practice on executive pay. Thirdly (iii), there are the international policies on the regulation of executive pay that have emerged in 2009. Finally, the chapter will (IV) end with a section discussing the future prospects for the regulation of executive pay at both the national and inter-national levels and the articulation between the levels. Here, it will be argued that the ‘softer’ approach to the regulation of executive pay is likely to be the pre-dominant one in the immediate future and that, despite the issues associated with the collective action problem and international-level regulation, the approach adopted by the G-20 towards the regulation of executive pay offers hope with regard to the extent to which it is likely to effectively regulate the issue.

II Traditional means of regulation

Levels of executive pay was not a particularly debated issue in the decades following the end of the Second World War. Not only were labour markets subject to limited degrees of internationalization, but sectors in which high levels of executive compensation would later emerge, such as the financial sector, were not expanded to the same degree as they would become in future decades. Levels of income tax in capitalist countries were also historically high. In the United States, the standard bearer of global capitalism in the post-war years, the top rate of income tax was 91% between 1946 and 1963. The existence of the Soviet Union and the Chinese Revolution of 1949 also meant that whole regions of the world pledged themselves to an ideology that was staunchly opposed to high levels of individual compensation.

Social and economic change

The series of economic and political changes that occurred after 1973 are well documented (Blinder, 1979). The ‘oil shock’ that occurred in 1973 and the economic recession that subsequently followed led to an era in which the liberal regulation of economies and labour markets greatly increased in prestige. Across the capitalist world, labour markets, social security systems, and taxation regimes all became regulated on more liberal lines. This had implications for rates of income tax. By 1982, the top rate of income tax in the United States was 50%. Economic liberalization in China after 1979, and the 1991 collapse of the Soviet Union also led to greatly more liberal attitudes to individual wealth accumulation in these regions of the world.

The rise of globalization in the 1990s also made the topic of executive compensation a greatly more debated one. The internationalization of labour markets led to the ‘war for talent’ in many sectors and this had an inflationary effect upon levels of executive compensation. The growing prestige of the Anglo-Saxon mode of corporate governance also led to a growing emphasis on ‘short-termism’ in compensation schemes and the rise

of bonus payments. Regulatory approaches to executive compensation also became more liberal. Rates of income tax continued to fall as globalization intensified competition between national tax regimes. Between 2003 and 2008 the average top rate of income tax in the world's most developed economies fell from 31.3% to 28.8% (KPMG, 2008).

Rates of executive pay

Table 1: Rates of international CEO pay in 2003

Country	Average CEO Pay (in U.S. dollars)
Japan	\$456,937
Belgium	\$697,030
France	\$735,363
Sweden	\$700,290
Netherlands	\$675,062
New Zealand	\$449,414
Switzerland	\$1,190,567
Germany	\$954,726
Spain	\$620,080
Australia	\$694,638
Italy	\$841,520
Canada	\$889,898
UK	\$830,223
United States	\$2,249,080

Source: Economic Policy Institute, State of Working America 2004/2005

In the years just prior to the outbreak of the economic crisis in 2007, levels of executive compensation had reached historic levels. In addition to base salaries, executive compensation packages typically came to include bonuses, stock awards, options and pension arrangements. Total remuneration for executives commonly started to top \$1 million a year. The phenomenon of multi-year guaranteed annual bonuses, where executives were guaranteed bonuses irrespective of performance, also became widespread. It is notable that rates of executive compensation were highest in countries in the West. This was particularly the case in the United States (James F. Reda & Associates LLC, 2009; Greenfield, 1999). According to a study conducted by the U.S. Economic Policy Institute (Table 1), in 2003 the average rate of Chief Executive Officer (CEO) pay in the United States was \$2,249,080. The next highest average rate internationally was in

Switzerland, where the rate was \$1,190,567. As table 1 thus demonstrates, rates of executive compensation were notably higher in Western countries and it is reasonable to conclude that high rates of executive compensation was primarily a Western phenomenon. Table 2 demonstrates the more modest rates of executive pay in a state such as China. As is shown, despite the fact that the banks ICBC and CCB had the two highest rates of market capitalization in the international finance sector in 2008, levels of executive compensation at the banks were over fifty times lower than certain Western banks with lower rates of market capitalization. Rates of executive compensation were also notably high within the financial sector. As table 2 also demonstrates, the highest paid executives within the sector began to receive annual compensation packages of over \$10 million. Within the sector, pay practices also emerged that allocated large bonus payments to executives. Later, the allegation would be made that these bonuses rewarded excessive risk taking and became disconnected from banks' actual levels of capital.

Table 2: Levels of CEO compensation in the international banking sector by market capitalization

Bank and CEO	Level of CEO compensation in 2008 (in U.S. dollars)	Market capitalization of bank (in billion U.S. dollars)	Nationality of bank
ICBC Jiang Jianqing	\$235,700	\$250.20	China
CCB Guo Shuqing	\$229,720	\$190.90	China
HSBC Michael Geoghegan	\$2,800,000	\$188.10	UK
JP Morgan Jamie Dimon	\$19,651,560	\$158.60	U.S.
Bank of China Xiao Gang	\$229,720	\$147.70	China
BofA Kenneth Lewis	\$9,959,080	\$129.80	U.S.
Santander Alfredo Saenz	\$13,660,000	\$127.00	Spain
Wells Fargo John Stumpf	\$13,782,430	\$123.90	U.S.
Citi Vikram Pandit	\$10,815,260	\$70.00	U.S.
Royal Bank of Canada Gordon Nixon	\$9,563,500	\$70.00	Canada
MUFG Nobuo Kuroyanagi	Not disclosed	\$69.70	Japan
Barclays John Varley	\$1,800,000	\$68.10	UK
BNP Paribas Baudouin Prot	\$1,570,000	\$67.40	France
BBVA Ignacio Goirigolzarri	\$6,800,000	\$67.00	Spain
UBS Marcel Ospel (now ex-CEO)	\$1,766,000	\$64.00	Switzerland
Commonwealth Bank of Australia Ralph Norris	\$8,045,000	\$62.60	Australia
Westpac Gail Kelly	\$7,426,000	\$61.80	Australia

Unicredit Alessandro Profumo	\$5,000,000	\$60.20	Italy
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Source: Reuters Research

Note: Where publicly available, figures include all bonuses, stock awards, options, and other benefits paid by the company in 2008

Levels of executive pay also dwarfed levels of pay for ‘normal’ workers. As table 3 shows, in many countries levels of compensation for executives were sometimes over forty times higher than for average workers.

Table 3: International ratio of CEO pay to average worker pay in 2004

Country	Ratio of CEO pay to average worker pay
Japan	11:1
Germany	12:1
France	15:1
Italy	20:1
Canada	20:1
South Africa	21:1
UK	22:1
Hong Kong	41:1
Mexico	47:1
Venezuela	50:1
United States	475:1

Source: Kroll, 2005.

Pre-crisis regulation

Prior to the crisis a number of approaches were used to regulate the topic of executive pay. Although these mechanisms were often tentative and there was no international level approach to the topic, the means used to regulate the issue in the years preceding the crisis are worth taking stock of as they help explain the development of policies on the topic during the crisis. Firstly, what we will call ‘softer’ regulatory mechanisms were used extensively. By ‘softer’ mechanisms, we mean policies that did not actually legally ‘cap’ rates of executive pay, but instead used techniques such as disclosure of salary arrangements and ‘naming and shaming’ in order to encourage moderation of executive pay levels. In the **UK**, a 2002 regulation made it statutory for firms to release all details

of pay in annual accounts. The 2006 Company Act within the UK also gave shareholders in companies the right to an advisory, non-legally binding, vote on director pay. That this regulation inspired shareholder revolts at several UK firms, including Vodafone, GlaxoSmithKline, and Unilever, demonstrates that these ‘softer’ forms of regulation often provided shareholders with the ‘teeth’ to control executive pay within firms. In the **United States**, the trade union AFL-CIO developed a website entitled ‘Executive Paywatch’. This website publishes the rates of executive pay at several high profile companies and then compares the rates to those paid to the workers employed at the firms. The website thus employs a technique that has been described within governance literature as ‘naming and shaming’ (Zeitlin, 2005).

The extent to which income tax, the traditional tool with which high levels of pay are regulated, was and is used to regulate executive pay should also not be understated. Although, as noted above, rates of income tax have fallen internationally in previous decades, income tax as a means of re-distributing wealth and penalizing ‘top-earners’ is still a key policy tool internationally. Table 4 demonstrates rates of income tax across the world’s most developed economies.

Table 4: Income tax rates in G20 member countries

Country	Top rate of income tax in 2008
Argentina	35%
Australia	45%
Brazil	27.5%
Canada	29%
China	45%
France	40%
Germany	45%
India	30%
Indonesia	35%
Italy	43%
Japan	50%
Mexico	28%
Russia	13%
Saudi Arabia	0%
South Africa	40%
South Korea	35%
Turkey	35%
U.K.	40%
United States	35%
European Union	n/a

II Regulation since the crisis

The crisis

The economic crisis started in earnest in the summer of 2007. This was when the ‘credit crunch’ first struck the American sub-prime housing market and quickly led to rapidly falling levels of liquidity in credit markets across the globe. After an interval of some months, a crisis that had been merely financial in scope struck the ‘real’ economy. This led to a global recession that many described as the worst since the 1930s, and to rising levels of unemployment and negative growth rates in many countries. Several financial institutions such as Bank of America and Citigroup were also ‘bailed out’ with public money, in line with the rationale that they were ‘too big to fail’. As the recession deepened, public anger across the world focused on the levels of pay that ‘top earners’ were adjudged to be receiving. Anger particularly centred on firms which had received

public money, but in which executives continued to enjoy high levels of compensation (New York Times, 2009; Guardian, 2009b). It was also felt that high salaries were unjustifiable in a time of recession, and that, in the financial sector particularly, the misalignment of reward and risk, the emphasis on short-termism, and the imbalance between executive compensation and firms' existing capital levels within reward systems had helped precipitate the recession.

In order to address these concerns, solutions were sought by policymakers. Several policies were developed at the national-level, but the view was widespread that in order to effectively tackle the problems associated with the issue, effective action was required at the international-level. The chapter will now outline the policies developed since the commencement of the crisis to regulate executive pay. As stated in section I, three different types of policies will be considered. These are (i) policies of a 'hard' form that seek to actually 'cap' levels of executive pay, (ii) policies that are 'softer' in their scope and that use techniques like the establishment of greater shareholder rights to determine compensation levels and the limiting of practices such as multi-year guaranteed bonuses, and (iii) international level policies.

Legally defined limits on levels of executive pay

The imposition of legally specified limits on levels of executive compensation have not been numerous since the start of the crisis. Although French President Nicolas Sarkozy advocated the placement of actual limits upon bonus payments to executives at the September 2009 G-20 summit in Pittsburgh in the United States, this principle was not finally adopted, and the opposition of most parties at the summit to the idea is further reflected in the limited number of policies adopted at national-levels that place 'caps' upon levels of executive compensation. Some precedents exist however. For example, in **Russia**, a policy was initiated in 2009 in the Russian Duma that aimed to legally limit the levels of pay of top executives. In **China**, 'caps' have been imposed upon levels of executive pay in various instances. In February 2009, the Chinese Ministry of Finance imposed a limit upon the pay of executives at state institutions of 2.8 million Yuan

(\$410,000). In April 2009, the Ministry imposed a limit of 90% of the level of 2007 salaries at financial institutions in China.

'Softer' approaches to executive pay

By far the most pronounced approach to the regulation of executive pay since the start of the economic crisis has been that of what we will call 'softer' regulation. By this, we mean the use of policy mechanisms that do not actually legally 'cap' levels of executive pay to regulate the issue. These include mechanisms such as 'naming and shaming', 'say on pay' shareholder votes, and the publication of executive pay levels in order to achieve better governance of executive pay levels. Although the actual enactment of these 'softer' measures may have been achieved via legally binding regulation, it is analytically useful to class these forms of regulation as 'softer' given that they do not actually statutorily limit levels of executive pay.

The development of 'say on pay' policies on executive pay have been popular in many national contexts since the start of the crisis. 'Say on pay' policies involve giving shareholders within firms the right to vote on compensation levels of executives. There are several examples of such policies in the **United States**. In 2008, the Emergency Economic Stabilization Act was passed that established the Troubled Assets Relief Programme (TARP) that allocated funds to firms in financial difficulty. As part of the Act, firms that owed money to the TARP were legally required to hold 'say on pay' resolutions. Throughout 2009, the U.S. public authorities signalled their determination to uphold this requirement in firms that had received funds from TARP. The use of 'say on pay' policies in the U.S. developed further. In July 2009, the U.S. House of Representatives passed the 'Corporate and Financial Institution Compensation Fairness Act of 2009'. This bill allowed for 'say on pay' resolutions at all public institutions within the U.S., and also provided shareholders with the right to vote on 'golden parachutes' (an agreement on benefits for executives in the event of termination of employment) for executives.

In **Australia**, the Australian Government signalled in October 2009, following the recommendations of a public commission on productivity within firms, its intention to provide shareholders with greater levels of control over rates of executive pay. The legislation that is foreseen will likely include a number of points. These include a ban on executives sitting on remuneration committees, and the requirement that remuneration consultants report to boards rather than management. Further, what has been described as a ‘two strikes proposal’ is likely to be introduced. Should 25% of board members oppose an executive compensation package, then the board will be required to report back with another proposal. Should 25% of board members oppose the compensation package a second time, the firm’s board will be required to stand down. In the **United Kingdom**, the ‘say on pay’ regulations of 2006 (outlined in section II) have continued to operate since the start of the crisis.

In **Germany**, the Stock Corporation Act was amended in September 2009 and included several measures designed to strengthen the ability of shareholders to control rates of executive pay. The Act signalled its intention to ensure that ‘there must be an appropriate relationship between the remuneration of the management board of a public limited company and the management board’s performance’. Specifically, the Act stated that remuneration levels ‘may not exceed the usual (sector or country-specific) level of remuneration in the absence of special reasons’, that decisions concerning the remuneration of board members must be taken by the whole supervisory board rather than within committees, that executive share options would not be able to be exercised until four years after the granting of the option, and that former management board members would not be allowed to become members of the supervisory board until two years after their departure from the management board. Further, the Act provided shareholders at listed companies the right to non-binding votes on management board remuneration, and extended the right of supervisory boards to make cuts in levels of compensation should the economic situation of firms worsen.

Other ‘softer’ approaches to the regulation of executive pay have proliferated. In many national contexts, ‘moral’ pressure has been borne upon firms by Governments and

publics to disclose details of salaries or to moderate pay rates. In **China**, pressure from the Chinese Government has led to many firms publishing details of executive salaries. Notably, Guotai Jun'an Securities, a firm that operates in the financial sector, published the details of the pay of their executives in February 2009 after pressure from the Chinese Government and the Chinese public. In **India**, Prime Minister Manmohan Singh issued a Charter to Indian industry that included a point about excessive levels of remuneration. In other national contexts, employers have autonomously agreed employer-led measures to regulate pay within specific sectors. In the financial sector, **Norwegian** and **Dutch** employers agreed upon joint guidelines to limit rates of pay within their sectors. In the latter case, it was agreed that bonuses for executive board members within the Dutch banking sector should be limited to 100% of annual salaries. Employers in other national banking sectors have also reached agreement on guidelines to limit executive pay, albeit in the 'shadow' of pressure from national public authorities. In the **United Kingdom**, an agreement was reached between the five largest banks within the country in September 2009 to publish the total pay of their most senior staff and to spread bonus payments over a three year period. This Agreement was reached in the face of high public anger over levels of executive pay in the sector, and substantial pressure from the UK Chancellor of the Exchequer. In **France**, following an August 2009 meeting with French banks, it was announced by French President Nicolas Sarkozy that an agreement had been reached to force executives to wait three years before receiving bonuses and also to allow these bonuses to be retractable for a further two year period should there be evidence of poor performance. Banks who do not comply with these rules are likely to be 'blacklisted' by the French authorities.

Negotiating the moral hazard problem?

It is also important to note that much of the regulation that has been developed to regulate executive pay has been inspired by the idea that firms who have received public funding implicitly 'owe' national publics and public authorities the obligation to set moderate and socially responsible rates of executive pay. This is an attempt to address the problem of 'moral hazard' that has been discussed widely since the start of the crisis. 'Moral hazard'

refers to the idea that ‘profit is privatized while risk is socialized’, and notes that whilst firms did not share their profits with national publics prior to the crisis, it was the financing of national taxpayers that saved several large firms after the crisis. This belief has been key in framing U.S. policy on the topic of executive pay. As described above, the implementation of ‘say on pay’ reforms in the U.S. has been a condition of the receipt of TARP funding. In the UK, a key part of the rationale for the UK Chancellor of the Exchequer’s deal with large UK banks in September 2009 was that many of the banks had received a large volume of state funding.

An international approach to executive pay regulation

A further key trend regarding executive pay that has emerged since the start of the crisis is that its regulation has taken on an international dimension. Two G20 summits were held in 2009 that both substantially addressed the issue of executive pay. Further, the international Financial Stability Forum (FSF) became the Financial Stability Board (FSB), and assumed a series of new competencies with regards to the regulation of executive pay. The development of an international approach to executive pay reflected a growing post-crisis conviction that the regulation of executive pay, and the regulation of financial markets in general, required the development of effective international governance structures. The view was that the internationalization of financial markets, and the propensity, as demonstrated in the second half of 2007, for financial market contagion to spread rapidly across borders, meant that national level regulation of a topic such as executive pay was no longer sufficient.

The first G20 summit of 2009 was held in London in April of that year. Rather than assembling finance ministers and central bank governors from the 20 G20 members as most previous summits had done, the London Summit involved the heads of state from the countries concerned. Three recommendations on the issue of executive pay were made:

- It was decided that ‘large financial institutions should ensure that their compensation frameworks are consistent with their long term goals and with prudent risk-taking’. In order to fulfil this, it was stated that boards of directors and shareholders should ensure that firms and organizations had appropriate internal mechanisms in place to ensure the effective setting of compensation levels.
- It was decided that ‘in order to promote incentives for prudent risk-taking, each financial review must review its compensation framework to ensure it follows sound practice principles developed by the FSF [now FSB]. These [sound practice principles] include the need for remuneration systems to provide incentives consistent with the firm’s long-term goals, to be adjusted for the risk taken by employees, and for the variable components of compensation to vary systematically according to performance.’
- Finally, it was stated that ‘prudential supervisors should enhance their oversight of compensation schemes by taking the design of remuneration systems into account when assessing risk management practices.’

The implementation of the first two measures was to be overseen by ‘prudential supervisors or other relevant national authorities’. The third was to be overseen by the ‘expanded FSF [the FSB]’. The three measures were to be implemented by ‘Fall [autumn] 2009’.

The second G20 summit of the year was held in Pittsburgh, U.S.A in September 2009. This summit also involved the heads of state of the G20 member countries. Prior to the summit, French President Nicolas Sarkozy advocated the ‘capping’ of rates of executive compensation. This proposition was not accepted after several countries, notably U.S.A and the U.K., declared themselves opposed to the idea. Finally an agreement, based on an FSB document setting out good practice on executive compensation, was reached. This advocated the following principles,

- Avoiding multi-year guaranteed bonuses
- Requiring a significant portion of variable compensation to be deferred, tied to performance and subject to appropriate clawback and to be vested in the form of stock or stock-like instruments, as long as these create incentives aligned with long-term value creation and the time horizon of risk
- Ensuring that compensation for senior executives and other employees having a material impact on the firm's risk exposure align with performance and risk
- Making firms' compensation policies and structures transparent through disclosure requirements
- Limiting variable compensation as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital base
- Ensuring that compensation committees overseeing compensation policies are able to act independently

The measures were to be implemented by March 2010 and implementation was to be monitored by the FSB.

As several commentators have pointed out, the crucial question regarding the agreements reached at London and Pittsburgh relates to their implementation. Although, as outlined above, there have been several policies that have sought to extensively regulate executive pay at the national level, the degree of political, economic and institutional diversity evident in differing national contexts means effective implementation of the agreements will not be a straightforward task. The prospects regarding the implementation of the agreements will be outlined in section IV. It is also necessary to remark that the establishment of the FSB in April 2009 is an impressive development with regard to the

international-level regulation of executive pay and the finance sector in general. As an international body that is tasked with ensuring the implementation of effective financial standards and coordinating national policies, it is likely that its existence will only increase the probability of effective international regulation of executive compensation and financial markets.

IV Analysis and policy recommendations

The chapter will now analyze the national and international policy regime that is emerging regarding the regulation of executive pay and will discuss its implications. The prospects for the effective implementation of G20 level agreements on executive compensation will also be considered. Finally, a series of policy recommendations will be made.

What form of regulatory regime is emerging?

The regulatory regime that has emerged nationally and internationally to govern executive compensation, described in section III, exhibits a number of trends. Firstly, it is apparent that what we have described as the ‘harder’ approach to the regulation of the topic (i.e. the placement of legally specified limits upon levels of executive compensation) is only of limited appeal to actors. In most national contexts this approach has not been adopted, and the rejection at the September 2009 G20 summit of French President Nicolas Sarkozy’s proposals to ‘cap’ executive pay demonstrates the failure of this approach to establish itself at the international level. By contrast, what we have described as the ‘softer’ approach to executive pay regulation (i.e. the use of policy instruments, although often established in law, to encourage, rather than coerce, good practice on executive compensation) would appear to have established itself. Across the world, regulatory approaches have developed that through the empowerment of shareholders, the application of public pressure on institutions to set responsible rates of executive pay, and the legal limitation of practices such as multi-year guaranteed bonuses, aim to produce effective governance outcomes regarding executive pay. It is

also important to note that this form of regulation is likely to have a crucial ‘sword of Damocles’ effect upon the behaviour of firms and their setting of executive pay rates. Put plainly, if firms do not adhere to responsible executive compensation practices as a result of the new regulation in place, it is highly probable that public authorities will establish tougher levels of regulation in response, that perhaps even legally ‘cap’ levels of compensation. This is likely to exercise a key impact upon firms’ response to the new regulatory environment. The development of an inter-national level of regulation on the executive pay issue also denotes a key landmark. It is likely that regulatory approaches to executive pay developed at the national and inter-national levels are likely to complement one another and promote policy learning between actors at the various levels. The new role assumed by the FSB could also be useful in this regard.

Will the G20 approach be successful?

A pivotal consideration relates to the extent to which the G20 approach to the regulation of executive pay is likely to be successful. In this regard, perhaps the acid test of its efficacy is the degree to which the agreements reached at the 2009 G20 summits in London and Pittsburgh are likely to be successfully implemented by G20 members. Various points may be made that make one both weary, and optimistic, of the likely effectiveness of implementation outcomes and of the ability of the G20 summits as a global regulator of executive compensation.

With regard to the factors that give one grounds for concern, there are several academic theories that have been developed that express doubt about the likely efficacy of international governance structures. Specifically, the theories of the collective action problem (Olson, 1965) and the ‘joint decision trap’ (Scharpf, 1988) have been advanced to explain the potential problems that international governance forms are likely to encounter. The former theory stipulates that when two or more actors are pursuing a goal that is likely to bring benefit to all, it is likely that collective action on the issue will be difficult to achieve given the differing costs and benefits of collective action to different actors. In another policy field in which international cooperation is of the utmost

importance, climate change, the Stern Review of 2006 gave an useful definition of the problems associated with the development of international policy on the topic,

‘no two countries will face exactly the same situation in terms of impacts or the costs and benefits of action, and no country can take effective action to control the risks that they face alone. International collective action to tackle the problem is required because climate... is a global public good — and because co-operative action will greatly reduce the costs of both mitigation and adaptation. The international collective response to the climate change problem required is therefore unique, both in terms of its complexity and depth’

In terms of the importance of international action and the problems likely to be encountered, almost exactly the same words may have been written about the executive compensation issue.

The theory of the ‘joint decision trap’, developed by the scholar Fritz Scharpf, is also an useful way to consider the difficulties associated with international regulation on executive compensation. Developed to describe governance problems in Federal Germany and the European Union, the theory states that interdependent Government decisions tend to be taken at the lowest common denominator. This is because other Governments, for whom the decisions may imply substantial costs, may veto them. Given the structure of international governance in terms of the number of actors involved and the degree of diversity between them, Scharpf’s theory of the joint decision trap usefully addresses potential problems associated with the international level regulation of executive pay.

On an empirical level, various factors also stand in the way of the effective global regulation of executive compensation. One is the high degree of diversity apparent in national political and corporate governance structures and taxation regimes. Owing to this diversity, it becomes very hard to achieve reasonably uniform global regulation of an

issue such as executive pay. The optimum outcome therefore is that national regulations of executive pay demonstrate converging trends.

There are, however, a series of grounds for being optimistic about the ability of the G20 to successfully regulate executive pay. A series of relevant considerations have been outlined by political scientists writing about international regulation and its efficacy at lower levels. Firstly, the level of political and public pressure upon actors to implement international regulation has been identified as a key factor regarding the likelihood of effective implementation outcomes (De La Porte and Pochet, 2002). In place of the formal and economic sanctions available to national Governments when enforcing national law, this pressure can act as a very powerful force upon national actors when implementing international agreements. From this perspective, the level of political and media attention that the agreements on executive pay at Pittsburgh and London attracted is no bad thing with reference to the prospects of the agreements being adequately implemented. The level of public and media scrutiny of the Pittsburgh and London summits and their outcomes is almost without precedent in international summits in recent years. As a result of this pressure, it is more likely that the output of the summits will achieve change in national contexts.

A second factor that implies a greater likelihood of the G20 agreements being implemented successfully in G20 member countries is the degree of support that existed within the Governments of G20 member countries for an agreement on executive compensation prior to the summits. As has been noted by Zeitlin (2005) and De La Porte and Pochet (2002) in studies of European Union governance and its implementation in European member states, significant degrees of support for European-level initiatives by national actors enhance the likelihood of the European-level policies being effectively implemented at the national level. Support for a deal on executive pay was apparent in the great majority of G20 member countries prior to the London and Pittsburgh conferences. Although disagreement was also evident regarding the best way to regulate the issue, a consensus at least existed that action was required. If one accepts the verdict

of academic authorities, the existence of this consensus is likely to promote better implementation outcomes.

Enhancing implementation outcomes

Given that the G20 now appears a permanent feature of international governance and that the topic of executive compensation will be likely to continue to appear on its agenda, the G20 would do well to consider specific ways in which the implementation of its agreements on executive compensation can be made more effective. To this end, the G20 may do well to draw lessons from the European Union's means of improving the implementation of European Union 'soft' law. Here, the Open Method of Coordination (OMC) is used to enhance implementation outcomes within European member states. The OMC involves the European-level drafting of national implementation plans by actors for execution within their national contexts, and the implementations that are then affected are formally reviewed at the European-level by European and national actors. National actors who are deemed not to have kept to their implementation plans are 'named and shamed' at the European-level. As scholars in the field of European governance have described (Chalmers and Lodge, 2003; Hodson and Maher, 2001), although the OMC is non-legally binding in nature, the process of 'peer review' and the pressure it applies upon non-compliers can have a very strong effect with regard to the strengthening of implementation outcomes.

If the means used to monitor the implementation of G20 agreements on executive pay became more formalized then, it could lead to significantly better implementation outcomes at the national level. Monitoring mechanisms could be improved in various ways. Firstly, the production of 'action plans' on measures to tackle the issue of executive compensation would do much to focus minds on the series of policies that are requisite to adequately implement the principles agreed on executive compensation at London and Pittsburgh. Such 'action plans' would also provide good 'benchmarks' to appraise the implementations eventually affected. Were it to become demonstrable that a particular state had strayed from the measures agreed in their 'action plan', the level of

'moral' pressure placed upon them by other G20 member countries could be considerable.

The organization of regular meetings to jointly assess the implementation of the agreed principles would also be useful. National finance ministers or senior civil servants could attend such meetings, and the events would do much to reinforce the idea of the regulation of executive pay as an ongoing process that requires continued and coordinated action at both the national and international levels. These events would also provide the opportunity to 'name and shame' parties who had not complied with the principles on executive compensation agreed by the G20 countries. Finally, although it is already significant, the role of the FSB in the monitoring of implementation could be enhanced further. Although it is mainly composed of national finance ministers and central bankers and is thus hardly autonomous from G20 member countries, it nevertheless possesses some degree of distinctiveness from the G20 as an international forum. The FSB could assume the role of guardian of the principles on executive compensation agreed at London and Pittsburgh, and could organize and supervise the monitoring activities suggested above.

Social Partner organizations at the national, sectoral and firm levels will also have a key role to play in ensuring that the G20 agreements are implemented 'effectively'. This role may be fulfilled in various ways. Firstly, the development of nation or sector wide 'codes of conduct' on executive pay by employer associations could either complement legislation on the topic or, in some cases, act as a substitute for it. Evidence from various countries, referred to above, suggests that many employers' associations have taken the initiative in this regard. The advantage of such an approach is that it is likely to solicit greater levels of commitment to the regulation of the executive pay issue on the part of firms. Employer associations' could also monitor the compliance of their affiliates with regulation and 'codes of conduct' on the executive pay issue. There is also scope for trade union involvement in the regulation of executive pay and the implementation of the G20 agreements. Trade unions may assume the role of 'watch-dogs' of levels of executive pay, and in this sense may play an important role in 'naming and shaming' firms who do not

adhere to socially responsible practices in the setting of executive pay. The example of the U.S. trade union AFL-CIO's 'Executive Paywatch' website, described above, is one example of the successful employment of such an approach.

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