

# Directors' remuneration packages

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Directors' Remuneration Packages 3 Reference 7 Directors' Remuneration Packages Academic scholars have pointed out that companies need to give deeper look at the issues related to director's remuneration packages in order decrease scope for controversies. It has been observed that director's remuneration packages have got much of the media and shareholder attention due to its bipolar nature (OUP, 2009). Industry experts have pointed out that companies need to address following four issues regarding the director's remuneration packages. Mallin (2007) has argued that companies need to understand the role of share options on director's remuneration package. The research scholar has also pointed out that share holder's confidence can be impacted by the level of remuneration package designed for directors. Hicks and Goo (2008) have pointed out that director's remuneration package should maintain a proper balance between performance related variables and total remuneration packages. They have also stated that remuneration packages should be designed in order to encourage directors perform at the highest level. Solomon (2011) has stated that remuneration committee needs to play crucial while deciding the remuneration packages for directors in order to avoid future conflict regarding the high pay packages. Gennard and Kelly (2012) have suggested that companies need to measure the influence of shareholder's interest on remuneration packages for directors. It has been observed that British companies use share options as long term incentives for director's remuneration package. Lee (2002) has stated that generally British and American companies give 10% to 30% of their equity to a director which is far higher than the global trend. Vagliasindi (2008) has also pointed out that <https://assignbuster.com/directors-remuneration-packages/>

there is significant difference between compensation packages for the directors of developed and developing countries. Research scholars such as Conyon and Mallin (1997) have argued that shareholders are the principal for the organizations while directors are the mere agents. Hence companies should take shareholders opinion while deciding the remuneration packages of directors. Bebchuk and Fried (2004) have stated that fat pay packages of directors ultimately hurts the interest of shareholders. Following case studies will be useful in order to understand significance of the problem. Royal Bank of Scotland Shareholders of Royal bank of Scotland raised their voice on pension payment and other remuneration packages of the directors. Almost 90% of the shareholders rejected the remuneration report published by the company. Industry reports have also supported the viewpoint of shareholders by stating that high pay packages for the directors have weakened the financial condition of Royal Bank of Scotland. Butler (2009) has revealed that credit default of the bank was caused due to excessive remuneration packages for directors of Royal Bank of Scotland. The new Chairman of the company appointed law firms to conduct investigation on the matter in order to address shareholder's grievance (Croft and Bolger, 2009). British Petroleum British Petroleum suffered similar kind of rebellions from the shareholders regarding remuneration package of directors during the year 2008. More than 50% of the shareholders rejected the proposed remuneration plan for directors (Tricker, 2009). Hannigan (2012) has pointed out that shareholder revolt in British Petroleum was justified because performance of the company was significantly hampered by fat pay packages for executives. Industry experts have pointed out that third quarter loss of the company was partly caused due to hefty remuneration package of

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directors (MacNamara and Mackenzie, 2009). In the next section, the study will try to discuss available options for the company in order to address the issues regarding remuneration packages of directors. Sir Richard Greenbury (1995) has stated that companies need to keep faith on transparency, performance and principles of accountability in order to control remuneration package of directors (Hughes, 1996). Greenbury report proposed a code in order to link individual performance of directors to remuneration packages (Wearing, 2005). Greenbury report has suggested that publicly traded companies need to establish a remuneration committee (RC) and the RC should perform following operations: Determining remuneration policy for directors in accordance to business objective of the company (Fernando, 2009). Determining individual remuneration package for directors. Reporting all the issues regarding remuneration package of directors to shareholders in order to maintain transparency of board of directors Greenbury report has also suggested that RC needs to use latitude while determining the remuneration package for individual director. The remuneration should be sufficient to attract and retain talented individuals in director position of the company. The RC should use comparative study of industry trend on director's remuneration before recommending any solutions. RC should create remuneration package for directors of the company after analyzing the link between performance and remuneration in other companies. Finally, the RC needs to establish equilibrium between fixed elements like benefits, pension rights, basic salary and variable elements like share options, long term incentives and annual bonuses in order to create a fair remuneration packages for directors of the company. Reference Bebchuk, L. and Fried, J., 2004. Pay Without Performance: The Unfulfilled Promise of Executive

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