Event Report: ‘Market or Racket: do we need a new approach to executive pay?’

Introduction

Alex Edmans, Academic Director, Centre for Corporate Governance and Professor of Finance, London Business School

Alex Edmans opened the event. He shared that the CCG chose to hold a conference on this topic because it is a major issue which captures for many people the reason why businesses are mistrusted. Edmans said that there were at least three dimensions that he expected to come into focus during the event. The first was quantum, the level of pay, which is important not only because it is directly costly to shareholders, but that if pay is too high it may be demotivating to workers and could have wider implications such as worsening income inequality within society. Edmans said a second concern is the design of pay and whether there is too much focus on financial metrics at the expense of non-financial metrics, leading to suboptimal decisions. He said the third issue is the process by which pay is set, and potentially inattentive boards rubber stamping pay which the CEOs set themselves and investors may be too dispersed to pay attention to.

Edmans said the event would be distinctive in two ways. The first is looking at perspectives from all sides on this issue, with a diverse range of views in the room from people including investors, reward directors, consultants, and people from private and public companies. Second, each session would be grounded by the presentation of academic evidence. Edmans emphasised that both practitioner experience and academic research offer complementary perspectives - practitioners are closer to the data, and academics can use techniques to tease out relationships within the data (e.g. between pay and performance). He also said that academic evidence is not an excuse to be dogmatic, and there is not only one right answer. Edmans stressed that the goal of evidence is to put the facts on the table so we can understand what the trade offs are and make informed choices, even though not everybody will make the same choice. He encouraged the audience to ask questions and to get involved in debate.