

RETHINKING THE ROLE OF  
INSTITUTIONAL INVESTORS  
AS EXECUTIVE  
REMUNERATION NORM  
ENTREPRENEURS

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Conference, Ottawa, Canada

# Outline of presentation



- Context for current debate
- Norms defined
  - ▣ Norms of executive remuneration
  - ▣ Institutional investors as executive remuneration norm entrepreneurs
  - ▣ Institutional investor norms of exec rem
- Failed entrepreneurs?
- Questions for reflection

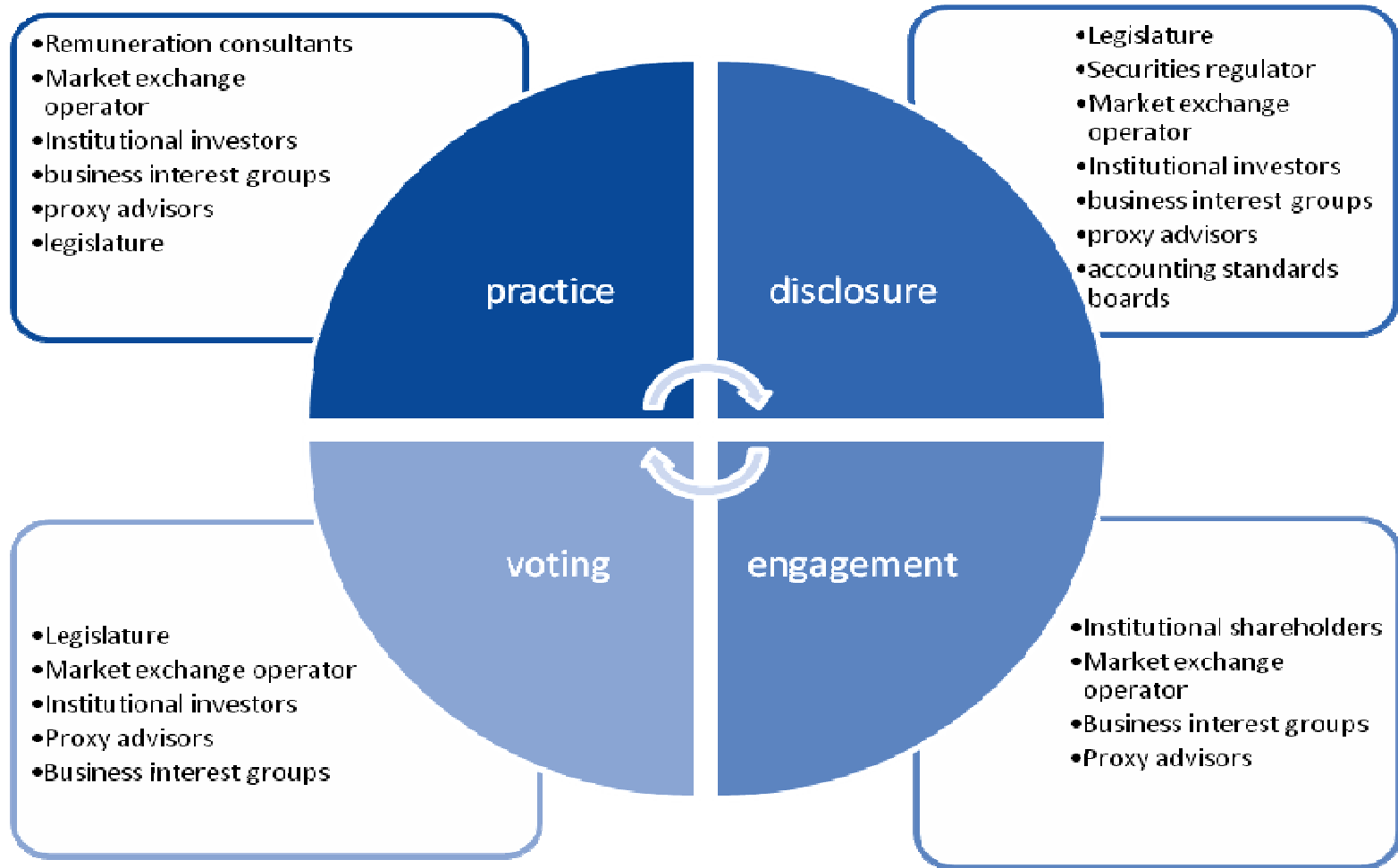
# GFC

- 'excessive risk-taking in the financial services industry and in particular in banks and investment firms has contributed to the failure of financial undertakings and to systemic problems in the Member States and **globally...while not the main cause of the financial crisis that unfolded during 2007 and 2008, there is a wide-spread consensus that inappropriate remuneration practices in the financial services industry also induced excessive risk-taking and thus contributed to significant losses of major financial undertakings...**these practices tended to reward short-term profit and gave staff incentives to pursue unduly risky activities which provided higher income in the short term while exposing financial undertakings to higher potential losses in the longer term.
- *Commission recommendation on remuneration policies in the financial services sector, Commission of the European Communities, C (2009) 3159, 30.4.2009*

# Norms and norm entrepreneurs

- Norms are...
  - ▣ Informal social regularities that individuals feel obligated to follow, because of an internalised sense of duty, because of fear of external non-legal sanctions or both (McAdams)
  - ▣ Social attitudes of approval or disapproval, specifying what ought to be done/not to be done (Sunstein)
- Norm entrepreneurs
  - ▣ People interested in changing social norms (Sunstein)
  - ▣ Acting as a norm entrepreneur can result in economics benefits (Gopalan)
  - ▣ Exploit dissatisfaction with existing norms to create new norms...more likely when a tipping point is reached
  - ▣ Internalisation of norms appears necessary...

# The regulated remuneration cycle



# Norms in executive remuneration

Management (Gopalan – 1-3 and Bebchuk and Fried - 4)	Institutional investors (ABI, ACSI guidelines)
Greed is good	Paying at market rates, given firm performance, is acceptable and necessary to secure the services of The Talented
Pay equity is desired	Need to ensure parity with market per above
Pay for performance	Alignment of interests between executives and shareholders is valuable and achievable by remuneration structures...pay more for superior performance
Conformity of remuneration practices	If endorse market-based remuneration as norm, then structure to conform with the market likely to result in conformity

# Failed entrepreneurs?



- Voting behaviour is inconsistent
  - ▣ Less attention in good times than in bad times
  - ▣ Given lead times in executive remuneration, today's excessive payment is a result of policy positions and decisions made 1-3 years prior
- Engagement around remuneration
  - ▣ AGM frenzy
  - ▣ Proactive by companies
- Norms espoused
  - ▣ Differ from community expectations

# Rethinking the role



- Do institutional investors truly want to be norm entrepreneurs for executive remuneration?
- If so, what norms really matter?
- What territory is covered by others and thus monitored by them?
- What territory is best covered by institutional investors?
- Given pay for performance is norm, time to rethink performance expectations and consider whether there should be some upper limit to pay (and thus some upper limit to performance)