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TAKING THE ROUGH WITH THE SMOOTH

There is a time for everything. The last decade has been the time when we have heard the repetitive upward ratchet of remuneration drive boardroom pay to levels which have generated angst and animosity. It has been a game of leapfrog. Remuneration committees have succumbed to playing constant catch-up as they strive to calibrate their executive colleagues to bespoke benchmarks crafted by rather expensive remuneration consultants. But at long last, the rules of the game are changing. The time has come for remuneration committees to break the mould.

First, they should question seriously the reliance they place on benchmarks to drive their decision-making. Far better that they bring their instinct and intuition to bear - there's more to competitive positioning than just pay and rations. Do they really need expensive consultants to tell them what their corporate peers were paid last year? After years of upward only pay rises, remuneration committees owe it to shareholders and society to bring an end to the presumption that pay can only go up.

Second, remuneration committees – and executives, come to that – must grasp the reality that bonuses are what they say they are. Executives are paid a salary to do a good and competent job. Bonuses are to reward them for delivering exceptional performance which manifests itself in exceptional results: they are not a god-given right. Remuneration committees must not indulge in dodgy discretion, or dumb down performance targets half-way through the year. Directors should take the rough with the smooth - and 2008 is undoubtedly the year of the rough.

Third, remuneration committees must be vigilant in ensuring that they avoid the pitfall of perceived rewards for failure. The optics of pay are going to be very important during the 2009 AGM season. It is highly questionable whether, when share prices are depressed, executives should continue to receive share incentives based on the same multiple of salary as they did in previous years. Remuneration committees should think long and hard about this.

It is also a time when institutional investors need to square up to their responsibilities with a sharpened sense of fair play and good judgement. When share prices were going up, they were all, to varying degrees, seduced by the story of sustainable success. They now have to be courageous and say "no" when they genuinely believe that to do so would be in the best interests of their clients. They cannot change their past but they can change their attitude. Standard Life Investments is no exception.

But make no mistake; setting boardroom pay is an art not a science. The ABI's remuneration principles, provide a sensible starting point. It is for remuneration committees to apply them and for institutional investors to enforce them - and to be seen to do so when boardroom pay fails to pass their principled smell test.

This is not the right time for remuneration committees to go soft. This is not the right time for investing institutions to pay lip-service to their principles. But it is the right time to put the pay genie back in the lamp, for directors to take the rough with the smooth, and for investors to stand up and be counted.

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