

Reward Governance for Senior Executives

In areas such as dispute resolution, visibility and investor interest, the relationship between a senior executive employee and his or her employer differs materially from the relationship that most employees have with their employer. Executives are tools which help create shareholder value. A company's decision to employ one executive over another should be based on the ability of the potential employees to create shareholder value for the organisation. It is therefore essential to get both the appointment and contract right.

Negotiating and agreeing the right contract requires an understanding of areas as diverse as valuation, employment law, tax and accounting. Covering the appointment of UK executives under contracts governed by UK law, this volume of essays is intended to help anyone involved in the appointment and termination process and other aspects of executive reward and its governance.

CAROL ARROWSMITH is Head of Remuneration and a Partner at Deloitte & Touche LLP.

RUPERT MCNEIL is HR Director, Global Retail and Commercial Banking, at Barclays Bank plc.

Cambridge University Press
978-0-521-87159-4 — Reward Governance for Senior Executives
Edited by Carol Arrowsmith, Rupert McNeil
Frontmatter
[More Information](#)

Law Practitioner Series

The *Law Practitioner Series* offers practical guidance in corporate and commercial law for the practitioner. It offers high-quality comment and analysis rather than simply restating the legislation, providing a critical framework as well as exploring the fundamental concepts which shape the law. Books in the series cover carefully chosen subjects of direct relevance and use to the practitioner.

The series will appeal to experienced specialists in each field, but is also accessible to more junior practitioners looking to develop their understanding of particular fields of practice.

The Consultant Editors and Editorial Board have outstanding expertise in the UK corporate and commercial arena, ensuring academic rigour with a practical approach.

Consultant editors

Charles Allen-Jones, retired senior partner of Linklaters
Mr Justice David Richards, Judge of the High Court of Justice, Chancery Division

Editors

Chris Ashworth – O’Melveny & Myers LLP
Professor Eilis Ferran – University of Cambridge
Nick Gibbon – Allen & Overy
Stephen Hancock – Herbert Smith
Judith Hanratty – BP Corporate Lawyer, retired
Keith Hyman – Clifford Chance
Keith Johnston – Addleshaw Goddard
Vanessa Knapp – Freshfields Bruckhaus Deringer
Charles Mayo – Simmons & Simmons
Andrew Peck – Linklaters
Richard Snowden QC – Erskine Chambers
William Underhill – Slaughter & May
Sandra Walker – Rio Tinto

Books in the series

Stamp Duty Land Tax Michael Thomas; Consultant Editor David Goy QC
Accounting Principles for Lawyers Peter Holgate
The European Company: Volume 1 General editors Dirk Van Gerven and Paul Storm
The European Company: Volume 2 General editors Dirk Van Gerven and Paul Storm
Capital Markets Law and Compliance: The Implications of MiFID Paul Nelson
Reward Governance for Senior Executives Edited by Carol Arrowsmith and Rupert McNeil

Cambridge University Press
978-0-521-87159-4 — Reward Governance for Senior Executives
Edited by Carol Arrowsmith , Rupert McNeil
Frontmatter
[More Information](#)

Reward Governance for Senior Executives

Edited by

CAROL ARROWSMITH

and

RUPERT MCNEIL



Cambridge University Press
978-0-521-87159-4 — Reward Governance for Senior Executives
Edited by Carol Arrowsmith, Rupert McNeil
Frontmatter
[More Information](#)

CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom
One Liberty Plaza, 20th Floor, New York, NY 10006, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
314-321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre, New Delhi - 110025, India
103 Penang Road, #05-06/07, Visioncrest Commercial, Singapore 238467

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning and research at the highest international levels of excellence.

www.cambridge.org

Information on this title: www.cambridge.org/9780521871594

© Cambridge University Press 2008

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2008

A catalogue record for this publication is available from the British Library

ISBN 978-0-521-87159-4 Hardback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication, and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

Contents

<i>List of contributors</i>	vi
<i>Preface</i>	vii
Introduction	1
1 Striking the deal <i>Rupert McNeil</i>	4
2 Documenting the deal <i>Angus MacGregor</i>	23
3 Valuing the package <i>Emma Nicholson and Alison Smith</i>	32
4 Constructing the package <i>Alison Smith</i>	55
5 Supporting the business strategy <i>Carol Arrowsmith</i>	132
6 Reporting and explaining the deal <i>Angus Maitland and Isobel Sharp</i>	154
7 Governance of senior executive remuneration <i>Kathrin Kahrass</i>	180
<i>Glossary</i>	198
<i>Index</i>	235

Contributors

Carol Arrowsmith
Kathrin Kahrass
Angus Maitland
Angus MacGregor
Rupert McNeil
Emma Nicholson
Isobel Sharp
Alison Smith

Preface

This book addresses reward governance for senior executives and is aimed at two audiences.

Firstly it is intended to be a primer for people who want to learn the way many practitioners in the area of reward approach the construction and oversight of executive reward packages. Like most areas of professional practice, this activity involves a combination of art and science, and experience and judgment play an important part in reaching sensible decisions. This book also expresses a point of view about how this activity should be conducted. In other words, it is a normative as much as a positive guide; readers should be aware that some practitioners may approach executive reward in a different way but the editors make no apologies for suggesting that this is the way in which it *should* be approached.

Secondly, the reality of executive reward is that many of the decisions in any situation are taken by executive management and therefore this book is also intended to serve as a primer for executives required to take reward decisions, and shows how decisions can be taken that are fair to both executives and shareholders. There is of course an essential role to be played by those who oversee remuneration decisions, non-executive directors on remuneration committees in particular, or representatives of shareholders, and keeping the interests of shareholders front of mind at every stage in the decision making process is critical to effective decisions. In our view this works best in an environment where very clear authority has been granted to executive management to take decisions, with appropriate checks, and where every executive who takes a reward decision does so knowing that this authority could be withdrawn at any time.

We believe this book also fills a gap in the literature. While there are economic and legal texts that address some of the issues involved in taking effective executive reward decisions, the editors have not found a book which gives practical guidance on how effective decisions are actually taken. We hope that this book goes some way to achieving this.

We have approached this subject through the lens of the ‘deal’ – i.e. the process by which employer and executive strike a contract regarding what the individual will do and how the hiring company will reward them. This is because the deal represents the moment of truth in reward governance. It is the point when the forces of the market, the policies and pressures

Reward Governance for Senior Executives

constraining the company, and the individual's wants and needs converge in their starkest form. Although we recognise that it is only one perspective, it is one that is applicable to the ongoing relationship between executive and employer, and to reward governance generally.