THE AUTHORS

Brian G M Main is Professor of Economics and James Johnston is an ESRC Research Fellow in the Department of Economics at the University of Edinburgh.

THE REMUNERATION COMMITTEE AS AN INSTRUMENT OF CORPORATE GOVERNANCE

Brian G.M. Main and James Johnston

THE DAVID HUME INSTITUTE

1992

ACKNOWLEDGEMENT

The authors are grateful for support from the ESRC
under grant no R00 23 2031

The David Hume Institute
21 George Square
Edinburgh EH8 9LD

ISBN 1 870482 31 X

Printed by Pace Print (Edinburgh) Ltd.

FOREWORD

The publication of this Occasional Paper coincides with increased public discussion of corporate governance arising from the Report of Sir Adrian Cadbury's Committee on the subject. Already, however, the issue of the remuneration of business leaders had become a matter of debate, with contributions from figures as diverse as the Prime Minister, the Archbishop of Canterbury and various others. Brian Main and James Johnston have sought to throw new light and some facts into the discussion by examining whether British companies have been adopting the American practice of appointing Remuneration Committees to determine top-level pay, as recommended by various organisations such as Pro Ned, an off-shoot of the Bank of England. The data which Professor Main and Mr Johnston have been able to glean from publicly-available sources suggest that such Committees, although in wide use, are not yet as general as sometimes claimed; that the Committees are not made up exclusively of non-executive directors, but that there is no evidence that the presence of executives in itself boosted top executive pay; and that more participation by institutional shareholders and greater disclosure of company affairs is required for the improvement of corporate governance in the United Kingdom. These are significant conclusions in the wider circulation of which The David Hume Institute is pleased to be involved, but it must also state that it does not have a collective view on any issue, and publication of any of its papers does not imply a commitment to the position of any author.

Hector L. MacQueen
Executive Director.
June 1992

Remuneration Committees as an Instrument of Corporate Governance

Brian G M Main and James Johnston

1. Introduction

Over recent years, there has been a noticeable increase of interest in matters concerning corporate governance in Britain. This can be seen in papers coming out of the Bank of England by Charkham (1989), in innumerable articles in the popular and business press, and in the setting up in the City of the Committee on the Financial Aspects of Corporate Governance under the chairmanship of Sir Adrian Cadbury due to report in late May of 1992. Some of the general concern over corporate governance has focused on the issue of top executive pay. The levels of pay of British top executives rose dramatically in the latter part of the 1980s, and this caused many commentators to question the extent to which such pay rises reflected increased performance of such executives - as opposed to what John Kenneth Galbraith has termed "a warm personal gesture by the individual to himself".

It is quite clear that corporate governance concerns a much wider, and in many ways more important range of considerations than top executive pay. But under the strictures of the 1967 Companies Act (now mainly embodied in Schedule 4 of the Companies Act 1989), top pay is highly visible - in the public domain by law. It, therefore, provides a useful insight or indicator into the more general but less visible considerations affected by corporate governance. With that in mind, this paper takes the pay determination of the top executive as a measure of the effectiveness of corporate governance. In particular, the public disclosure of the existence of a Board-level remuneration committee charged with the responsibility of setting top executive pay will be taken as a measure of active governance. As an additional check, the detailed composition of the remuneration committee is examined for evidence of insider (executive) control.

Section 2 of the paper introduces the general agency problem that besets large widely-held corporations, and explains why top executive pay is a useful measure of the more general phenomenon of organizational slack. This section also discusses the origins of the notion of a remuneration committee. In section 3 a description of the data used in this study is provided, along with some general descriptive statistics concerning the linkage between the disclosure of a remuneration committee and the level and structure of top executive pay. The fourth section of the paper looks more closely at the composition of remuneration committees as they are described in the annual reports of the sub-sample of companies who publish such details. Finally, the paper concludes with an overview of the results and a brief discussion of their policy implications.

2. Corporate governance and agency

2.1 The theoretical view of governance

The corporate form of business organisation offering, as it does, the prospect of widely dispersed ownership and limited liability, has some very obvious advantages in terms of risk-bearing. Arrow (1971) makes this clear in modern terms. There is however a price to be paid as Adam Smith (1976, p.264) pointed out when he wrote of the "negligence and profusion" in an enterprises's business affairs that accompanies the separation of ownership from control. The same point was taken up by later commentators. But it was not until the work of Berle and Means (1932) that the empirical importance of the phenomenon was widely perceived and accepted.

Stemming from the observation of Berle and Means (1932) regarding the emergence of a class of property whose ownership could be regarded as "passive" (with control in the hands of others) rather than "active", and spurred by the detailed observations of Gordon (1945) on the nature and behaviour of business leaders, several new models of the firm were developed. These broke away from the traditional view of the firm as an institutional embodiment of the entrepreneurial, profit- maximising decision process. The firm was rather seen to be in the control of agents whose objectives could

differ from the unadorned profit-maximising rule that provides the driving mechanism of Smith's "invisible hand". In short, therefore, the objectives of the managers (or agents) are likely to differ from those of the owners (or principals). These principals, even in an economy with widely distributed share ownership, are generally assumed to be interested in profits - if not in the short run, then at least in the long run. In an attempt to capture the behaviour of a management-controlled firm (as opposed to the standard profit-maximising, principal-controlled firm), Baumol (1959) developed a model of the firm based on revenue maximisation. This was seen to be a plausible objective for top business executives to follow, not least because Roberts (1959) had found that top executive pay and corporate sales (turnover) were closely correlated. Marris (1964) contributed a model based on growth maximisation and Williamson (1963) a model based on the expense preferences, or tastes, of executives (for perquisites etc.).

While no one of these models has gained widespread acceptance, they have each had an impact on the way in which economists now view the firm. The modern view, discussed in Jensen (1983) and Ricketts (1987), allows that all agents will operate within the organisational constraints imposed, but all the time attempting to maximise their own utility or well-being. It is then incumbent on the principal (the owner) to arrange incentives (sticks and/or carrots) so that there is an alignment between what is in the best interest of the enterprise and what the agents (employee) finds him or herself doing out of self-interest.

Discussion of this principal-agent view of the world can be found in Jensen and Meckling (1976), Fama (1960) and Fama and Jensen (1983). These contributions focus on the institutional arrangements that secure cost-effective incentive alignment. In terms of corporate governance the notion of the Board of Directors with the power to hire, fire and remunerate the top executives is seen to be of paramount importance.

In a development of this principal-agent area that Williamson (1985, p.28) has labelled "mechanism design", economists such as Gibbons and Murphy (1988), Holmstrom (1972), Lazear and Rosen (1981), and Morck, Shleifer and Vishny (1988) have examined how the structure of individual compensation packages can be arranged to effect the desired incentive alignment. For example, if the Chief Executive Officer (CEO) was paid entirely in equity (company shares/corporate stock) then the interests of the principal (owner, i.e. shareholder in this context) and of the agent (CEO) have been effectively aligned. For various reasons, not least of which is risk-aversion on the part of the undiversified individual executive, this exact solution is not generally available and more complex arrangements must be examined. These generally involve a combination of base pay, bonus pay, and stock options.

The general area of principal-agent theory can be seen as distinct from the transaction-cost approach that Williamson (1985) adopts in his theory of the firm. Principal-agent theory emphasises the need to craft institutional arrangements and contractual details that produce the optimal alignment of incentives in an ex-ante sense. And, generally, self-enforcing compliance ensues, in the sense that self-interest leads the agent to act in a way that is also in the interests of the principal. But Williamson regards the firm as a governance structure which thrives because these very contractual details are too costly to thrash out, police and adjudicate in the market place. Rather, he suggests, the firm represents or embodies a governance structure, and in so doing is able to effect an ex-post resolution of disputes by fiat.

Both approaches, principal-agent theory and transaction-cost economics, address the agency problems such as asset-specificity, quasi-rents and hold-up costs that complicate employer-employee relations when there is bounded rationality and scope for small group opportunism. But what Williamson (1988, p.574) stresses is that the move to the organisational form that is the firm brings about a "fundamental transformation", whereby what was ex-ante a large numbers bidding situation becomes ex-post essentially a bilateral bargaining situation. Williamson argues that for reasons of bounded rationality and transaction-cost considerations the principal-agent view of the firm as a nexus of contracts is not plausible but, rather, the firm should be viewed as a governance structure which operates to the benefit of both owners of capital and employees.

For Williamson (1985,p.324) "the board of directors should be regarded principally as a governance instrument of shareholders". This is not, in fact, so different from Fama and Jensen's (1983, pp.302 and 311) view that the "expert board" plays a crucial role in contract enforcement through its "power to hire, fire and compensate top level decision managers".

It can be seen, therefore, that interest in the determination of top executive pay is fuelled not merely by an interest in the topic for its own sake - given the very high levels of pay involved - but also because it is a visible and readily accessible measure of the tension within the business enterprise between the agent and the principal, and a measure of how effectively incentives are aligned. In Williamson's terms, it provides an externally visible measure of corporate governance in action.

The agent under study here, the CEO and/or the Chairman, is in a position to "pay himself" well for very little effort or success. The challenge to the principal (the shareholders) is to arrange matters in such a way that pay is justified by performance and that pay is structured in a way that elicits the desired corporate performance - the most simple manifestation of which is a relatively high stock market return. Top executive pay - a matter of public record (since the 1967 Companies Act) -then becomes the lens through which we may examine corporate governance.

2.2 *Institutional governance arrangements*

The notion that the Board should be answerable to the owners (shareholders) is well established. Slates of directors are voted on at AGMs. What is less clear is whether the Board can be taken to represent the principal or whether it is subject to all of the agency problems generally associated with any group of employees. In the absence of effective Board control then one falls back on the market for discipline - either through product market competition and the implicit threat to the company's viability, or through Manne's (1965) "market for corporate control", i.e. takeover by merger or acquisition. But life is not so straightforward. The existence of monopoly power shields incumbent management from competitive pressure.

Furthermore, takeovers are costly and, as Grossman and Hart (1980) have made clear, are not always possible even when desirable.

These considerations increase the importance of corporate governance. The Bank of England, among others, has sponsored the establishment of Pro Ned, an organization that promotes good practice in corporate governance. In the first place, Pro Ned attempts to encourage British companies to allocate a greater number of Board seats to non-executives or outsiders. They have achieved marked success in this area (see Bank of England (1985)), but the fact remains that most British Boards (in contrast to their counterparts in the U.S.A.) remain dominated by executives. In a related vein, commentators such as Charkham (1989) have called for greater shareholder activism, particularly from institutional shareholders, in matters of corporate governance. Clearly non-executive Board membership by institutional representatives would be one move in this direction.

While critics such as Mace (1971) and Lorsch (1989) have pointed to manifest failings in the US system of corporate control through outside directors, it is from the USA that the latest innovation in corporate governance has been borrowed. This is the Remuneration Committee, introduced into British Boardrooms over the past few years in response both to the prompting of Pro Ned and other bodies, and also (one surmises) to the hostile public reaction to soaring levels of top executive pay.

The Remuneration Committee is a UK version of what is known as the Compensation Committee in the U.S.A. Braiotta and Sommer (1987) report that by 1985 86 per cent of the top 1,000 corporations in the USA had Compensation Committees. Of these, some 70 per cent comprised outside directors only. The prevalence of such committees goes back to a 1978 Securities and Exchange Commission (SEC) requirement that in each company's annual proxy statement the composition, frequency of meeting and purpose of the three Board subcommittees (Audit, Compensation and Nominating) be disclosed. This requirement had the effect of leading the majority of companies to set up and conduct business through such subcommittees. Harrison (1987) has argued that this movement

was given substantial encouragement by the upsurge in shareholder litigation against directors who consequently were anxious to be seen to have behaved with all propriety.

In Britain, the Institutional Shareholders' Committee (1991) has actively encouraged the organisational innovation of a Compensation Committee stating :

> A Compensation Committee should be appointed by the Board, consisting solely or mainly of non-executive directors (and in the latter case chaired by a non-executive director)...... Executive directors should not play any part in deciding their own compensation packages. The composition of the Compensation Committee should be disclosed in the Annual Report.

Similar encouragement has been provided by Pro Ned (undated) who, in a set of guidelines aimed at directors of listed companies, recommend that all companies listed on the London Stock Exchange should have a Remuneration Committee whose purpose is :

(a) to ensure that the company's directors and senior executives are fairly rewarded for their individual contributions to the company's overall performance

(b) to demonstrate to all the stakeholders in the business that the remuneration of the senior executive members of the company is set by a committee of board members who have no personal interest in the outcome of their decisions and who will give due regard to the interests of the shareholders and to the financial and commercial health of the company.

Pro Ned goes on to further recommend :

> that members of the Remuneration Committee should be independent non-executive directors.....

and that :

> the names of members of the Remuneration Committee should be published in the company's Annual Report and Accounts.

This paper attempts to measure how far British companies have gone in conforming with these recommendations. Attention is also given to the extent to which this organisational innovation can be said to have improved corporate governance.

2.3 *Empirical evidence from the USA*

While the US Compensation Committee arrangement looks like a sensible practice, there has been considerable disquiet there too at the levels of top executive pay (see Crystal (1991)), and at the lack of correlation between top executive pay and corporate performance.

O'Reilly et al. (1987) and Main et al. (1992) have claimed that certain social processes taking place through or in the context of the Compensation Committee can lead to higher CEO pay than would otherwise have been expected. In particular, O'Reilly et al. (1987) established that having a particularly well paid outside directors on the remuneration committee would, other things equal, increase the pay of the focal CEO. This they put down to the Tversky and Kahneman (1981) notion of framing, whereby what a person judges to be a reasonable level of pay (or size of meal etc.) is very much seen in the framework of what that individual himself or herself earns (or eats).

In Main et al. (1992) it was established that outside directors serving on the Compensation Committee who were appointed after the CEO had taken office, and in that sense owed their appointment to him, were likely to award a more generous level of pay (to the tune of some ten per cent) than other outside directors. This process was seen in the context of social influence, whereby, without anything approaching an explicit understanding being reached, there is an implicit social or psychic debt established by the initial appointment. This "debt" is subsequently, and unconsciously, repaid by way of the exceptionally generous level of pay awarded. In general, the outside director "feels good" about the CEO to whom he owes his appointment. This sense of well-being and favourable disposition comes out when the outside director is, through his membership of the Compensation Committee, in a position to influence the focal CEO's pay award.

To make sense of any of these ideas in the UK context, it is necessary to look at the data. And it is to data collection that we now turn.

3. The sample of companies and preliminary analysis.

3.1 *The data*

The sample of companies used in this study comes primarily from the 500 largest companies (ranked by employees) as listed in the *UK's Top 10,000 Companies* (1990). This list was enhanced by reference to the top 500 companies (ranked by remuneration) in the *Charterhouse Top Management Remuneration Survey* (1989-90). The two sample frames were utilised to ensure that both large and high-paying companies were included in the study.

Certain fundamental descriptive statistics on each company, such as turnover and stockmarket performance, were taken from the Datastream UK equities data set. Due to the emphasis on publicly traded companies, nationalised companies such as British Coal, British Railway and the Post Office were excluded. So too were companies such as IBM and Nestle which are not UK companies. Companies were also lost owing to difficulties in obtaining data or comparable data. Thus, some companies that had been taken over (e.g. Bejam and Consolidated Gold Fields) were lost. So too were companies such as banks and insurance companies, for whom it was difficult to construct sales figures comparable with the rest of the sample.

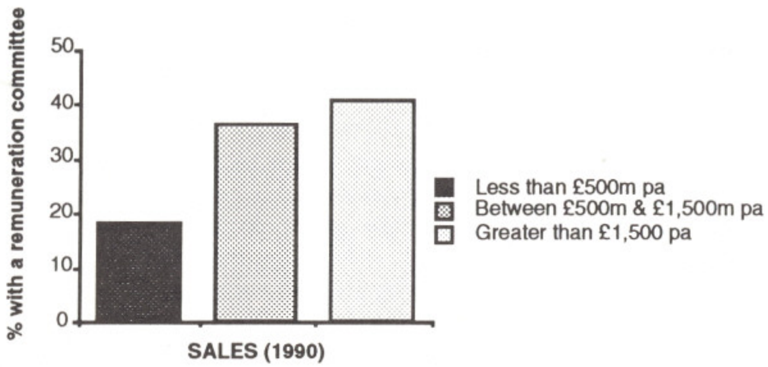
The resulting data base contains 270 companies. Then using the resources of the National Library of Scotland, each company's annual report was used to extract descriptive details on Board composition and the existence and composition of Remuneration Committees. An attempt was made to utilise the annual report for 1990 (or the 1989 report if that was unavailable). Difficulties in obtaining the required annual reports reduced the sample to a usable 220 companies. A listing of these 220 companies, ranked by turnover, is provided in Appendix A.

3.2 *Descriptive statistics*

Analysis of the 220 companies indicates that almost one third (30 per cent) disclose the existence of a Remuneration Committee in their annual report. Figure 1 demonstrates the variation in this behaviour by company size. It is clear that the practice is more common among the largest companies - 40 per cent of those with turnover in excess of £1.5 billion report Remuneration Committees while only 17 per cent of the firms with turnover less than £500 million do so. In a recent survey of companies in the UK, Pro Ned (1992) found[1] that more companies claimed to have a remuneration committee than declared the fact in their annual report. They found that around one-third of companies published details of the committee in their annual reports. As such, our over all figure of 30 per cent is consistent with the Pro Ned finding. But it is clear that the possibility that a company may be operating a Remuneration Committee system but not reporting the fact must be borne in mind when interpreting the results of this paper. The analysis below, therefore, pertains to the public disclosure of a Remuneration Committee's existence and composition.

Figure 1

Remuneration Committees & Sales

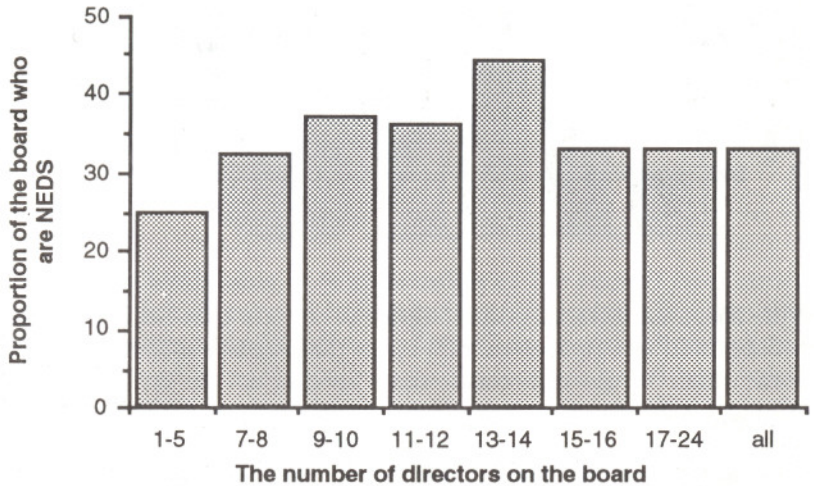


The agency considerations discussed above make it clear that if the Remuneration Committee is to operate meaningfully, then it must

contain non-executive directors (or in the words of the Institutional Shareholders' Committee (1991) consist "solely or mainly of non-executive directors"). For this to be possible, there must be non-executive directors on the Board. Figure 2 proves that this should not be a constraint for most companies in the sample. Around one-third of all directors are non-executive. The exact proportion can be seen to vary with company size, and there are some notable exceptions, such as Lonrho, where there are no outside directors on the Board[2]. Even at one-third, however, non-executive represen-tation is markedly lower than prevails in the USA where the proportion is nearer to two-thirds.

Figure 2

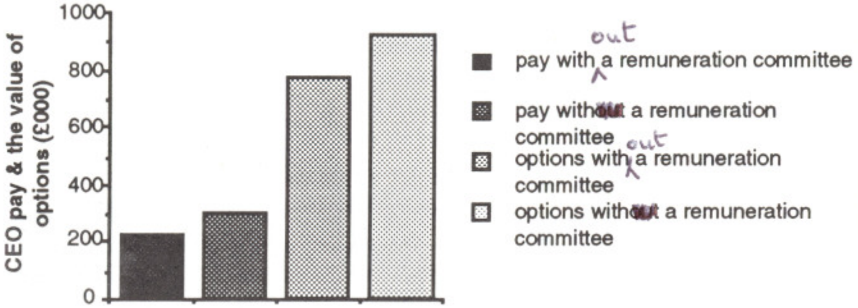
Board size & non-executive directors (NEDS)



To study the association between top executive pay and the disclosed existence of a Remuneration Committee, two measures of pay are examined. One is the reported emoluments of the highest-paid director. This appears in the annual report as a consequence of the 1967 Companies Act and covers the cash equivalent of all current pay (with the exception of pension contributions). The second measure is the valuation of the option holdings of the highest-paid director, as valued at the market price prevailing at the 1990 year-end. This is an imperfect measure of the long-term incentive facing the executive. A preferred measure would have been the Black-Scholes valuation of the options issued to the executive in a given year, say 1990. But this would require details concerning issue price, strike price and exercise date that are generally not available. As a consequence, the measure used is a "stock" (as opposed to a "flow") valuation, i.e. a measure of the worth of all options held, as if they had been exercised at the end of the 1990 fiscal year.

Figure 3

CEO Pay & Options



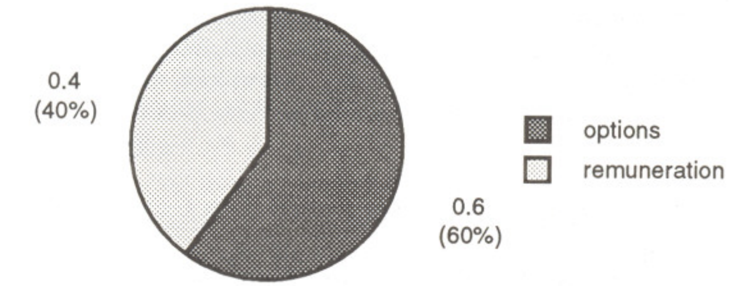
With these caveats in mind, Figure 3 reveals that both pay and options held are greater in companies that declare a Remuneration Committee. While this result may be due to the correlation of company size etc. with the declared existence of a Remuneration Committee (see Figure 1), multivariate statistical analysis reported in Main and Johnston (1992) reveals that, even when steps are taken to control for these other factors, the existence of a Remuneration Committee is associated with the level of pay of the highest paid director being around 18 per cent higher (worth £48,000 at the mean level of pay of £266,309).

Of course, while such an association with higher levels of pay is unexpected, the agency considerations of a Remuneration Committee do not suggest that the level of pay should be lower as

such. One would, however, expect a Remuneration Committee to be more effective in structuring the executive pay package in a way that aligns the incentives of the executive with the interests of the owners (shareholders). In this sense it is the composition rather than the level of pay that promises to be most revealing. If, therefore, the value of stock options held by the top executive can be taken as a measure of the long term incentive, then it is this measure that we would expect to vary owing to the influence of a governance structure such as a Remuneration Committee.

Figure 4

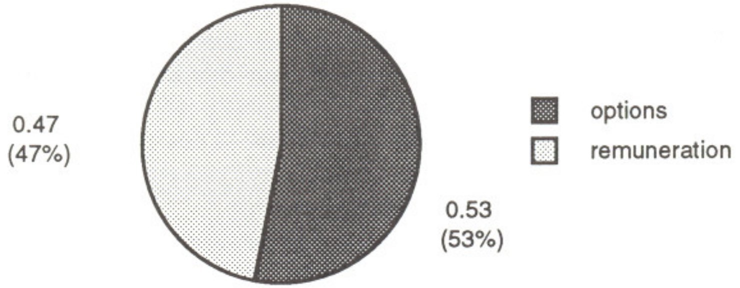
The Structure of CEO compensation for those companies with remuneration committees



Taking the total value of remuneration as the sum of emoluments and the value of current holdings of stock options (an imperfect measure as it adds a "flow" and a "stock", as explained above), then the fraction of this total constituted by options provides a useful measure of the long term incentive of the executive. It is this portion of remuneration that is unambiguously tied to the fortunes of the company. Figure 4 reveals that for companies with Remuneration Committees the average ratio of stock option value to total remuneration is 60 per cent, while in companies with no declared Remuneration Committee the average (Figure 5) is 53 per cent. There seems, therefore, to be little difference. Indeed more complex multivariate analysis reported in Main and Johnston (1992) confirms that there is no statistically significant impact on the incentive structure of top executive pay that can be attributed to the recorded presence of a Remuneration Committee.

Figure 5

The Structure of CEO compensation for those companies without remuneration committees



It seems, therefore, that as currently constituted the Remuneration Committees in large British companies are not having the expected impact on top executive pay. This prompts us to look more closely at who serves on the Remuneration Committee. This is done in the next section.

4. The composition of Remuneration Committees

4.1 Descriptions of the Remuneration Committee

The presence of a Remuneration Committee is clearly linked with other aspects of corporate governance. As indicated above, there is, at the very least, a requirement to have some non-executive directors on the Board. The companies in our sample reporting details of a Remuneration Committee are listed in Appendix B.

Table 1 suggests that whether the highest-paid director is Chairman, or is Chief Executive Officer (CEO), or combines the two roles makes little difference to whether or not there is a Remuneration Committee. The final column of this table does reveal, however, that the highest-paid director himself is more likely to sit on any Remuneration Committee if he combines the roles of CEO and Chairman. Where a Remuneration Committee is seen to exist, then almost two thirds of those who are both CEO and Chairman sit on their Remuneration Committee. This contrasts with 21 per cent of

the cases where the highest-paid director is Chairman only. Pro Ned (1992) report that in their sample of Remuneration Committees, some 62 per cent of these committees were chaired by the company Chairman.

Table 1

Highest paid directors and remuneration committees

	(i)	(ii)	(iii)
The highest paid director's title	Frequency	The number of companies having a remuneration committee (per cent of (i))	The number of companies where the HPD sits on the remuneration committee (per cent of (ii))
Chairman only	69	19 (28%)	4 (21%)
CEO only	97	29 (30%)	11 (38%)
Chairman & CEO	54	19 (35%)	13 (68%)
N	220	67 (30%)	28 (42%)

The extent to which Remuneration Committees are free (or otherwise) from executive influence is probed further in Table 2. In this table, the distribution of Remuneration Committees by size is given. The typical size is of some three to four members but the full range extends from one person to nine. The final column of the table indicates that in terms of the median there seem to be either no executive members (for committees up to 4 persons in size) or at most one executive (for committees of size 5 persons and higher). But the arithmetic average given in the penultimate column of Table 2 suggests that practice varies widely among a significant minority of the companies.

Table 2

The ratio of non-executive to executive directors and the size of the remuneration committee

Remuneration committee size	Frequency in sample	(per cent)	Average ratio of non-executive to total directors on the remuneration committee	Median number of non-executives on the remuneration committee
1	1	(2)	1.00	1
2	3	(4)	0.83	2
3	18	(27)	0.87	3
4	13	(19)	0.86	4
5	20	(30)	0.79	4
6	8	(12)	0.85	5
7	3	(4)	0.52	5
8	0	(-)	-	-
9	1	(2)	0.88	8
All	67	(100)	0.82	4

Table 3 explores the composition of the Remuneration Committee by type of member director in greater detail. Columns (iii), (iv) and (vii) report the presence of "insiders" on the committee. Whether there is at least one or at least two active inside executives (eg. the Chairman and/or the CEO) on the committee is reported in columns (iii) and (iv), and the presence of one or more retired internal executives is reported in column (vii). It may seem, at first, extremely odd to have executives sitting on a committee that determines their own pay. But it is possible that the information they provide can prove useful in determining the appropriate pay level and pay structure of more junior executives. And they can always withdraw when their own pay comes up for discussion. It must be said, however, that Crystal (1991), writing with extensive knowledge of the US system, is quite scathing on such matters.

There are, however, examples of codified "good practice" arrangements of this nature to be found in our sample. In the case of Dixons, for example, there is a clear sequence of Remuneration

Table 3

The composition of remuneration committees analysed by size

(i) Rem com size	(ii) N	(iii) One or more execs*	(iv) Two or more execs*	(v) Two or more outside	(vi) One or more retired outside execs (ACTEX)	(vii) One or more retired internal execs	(viii) One or more active advisers execs	(ix) One or more retired advisers	(x) One or more public sector
1	1	0	0	0	0	0	0	0	0
2	3	1	0	0	1	0	0	0	1
3	18	8	2	4	12	3	3	1	5
4	13	4	2	6	8	2	0	0	5
5	20	14	6	11	17	7	0	2	7
6	8	5	2	4	6	2	1	1	7
7	3	2	1	3	3	0	0	1	3
8	0	-	-	-	-	-	-	-	-
9	1	1	0	1	1	0	0	0	1
SUM	67	35	13	29	48	14	4	5	29

Sample Size = 67

* *This variable represents internal, active executive directors, whereas ACTEX (vi) represents external, active executive directors who are non-executive directors of the company in question.*

Committee structures which alters as the pay of more senior executives is considered. Thus, the non-executive directors discuss the pay of the Chairman. The Chairman and the non-executives discuss the pay of the other executives. And the Chairman and the executives discuss the pay of the non-executives.

In some few cases the executives assume a majority on the Remuneration Committee. In the Pro Ned (1992) survey, some 11 per cent of the Remuneration Committees had a majority of executives. In our sample of 67 Remuneration Committees executives are in a majority only 3 (4.5 per cent) of the cases. For example, at Gestetner both the Chairman and CEO (B. Sellars) and the company President (G. Melgaard) sat on the three-man Gestetner Remuneration Committee. The use of retired former company executives on the Remuneration Committee is seen to be relatively rare, with only 14 of the 67 committees examined having such an arrangement. As with the case of active company executives, there is a clear benefit from expert knowledge, but also the slight concern over lack of perspective and objectivity.

The remaining columns of Table 3 describe the representation of outsiders on the Remuneration Committee. Columns (v) and (vi) describe the stereotypical outside director - an executive from another company. The rather mysterious first all-zero row of the table is explained by the single-man Remuneration Committee at Siebe, comprising Sir R. Lloyd, an executive at Hill Samuel who sits as an outside director on several Boards. Column (vi) makes it clear that retirement is no bar to such service, with over two thirds of committees utilising retired outside executives. As will be seen below (in Table 4), active outside executives are numerically more frequent than their retired brethren.

The final columns of Table 3 describe Remuneration Committee members who are company advisers (merchant bankers, lawyers, etc.) or from the public sector. The public sector category embraces a wide range of non-executive directors including Lord Armstrong (former Head of the Civil Service) at BAT, Sir Christopher Tughendhat (former Vice President of the European Commission) at BOC, Sir Norman Tebbit (former Cabinet Minister) at BT, Professor J.

Ashworth (Director of the LSE) at Granada, and so on. The use of advisers, whether active or retired, is much less common than the use of representatives from the public sector. As public sector wage levels are notoriously low, it might be thought that, given any discretion in the matter, the CEO would avoid the selection of such individuals to his pay- determining process. From Tversky and Kahneman's (1981) "framing" perspective they might, as Main et al. (1991) have suggested, tend to award relatively low pay increases. Such considerations may, therefore, mitigate against their selection as Remuneration Committee members even if they are on the Board.

Table 4 assesses the possible presence of such biases in the selection of Remuneration Committee members from the available outside directors on the Board. Here the distribution of Board non-executive directors by broad type is compared with the distribution of Remuneration Committee non-executive director members. As the Remuneration Committee is technically a Board subcommittee, the actual numbers on the Remuneration Committee will tend to be smaller than on the Board. It is interesting to note that some 82 per cent of all non-executive directors in companies declaring a Remuneration Committee do end up on that committee.

Table 4

The employment status of non-executive directors

Category	The average number for the sample as a whole (per cent)*	The average for those non-executive directors sitting on remuneration committees (per cent)*
Current executive	2.448 (54.13)	1.447 (39.11)
Retired executive	1.179 (26.07)	1.552 (41.93)
Public sector	0.821 (18.15)	0.567 (15.32)
Advisors	0.074 (1.63)	0.134 (3.62)
Sum	4.522	3.700
Total Number of non-executive directors	303	248**

* *The percentage that each category constituted of the total number of non-executive directors.*

** *Approximately 82% of all non-executive directors sat on the remuneration committee.*

In some Boards service on the Audit Committee seems to preclude membership of the Remuneration Committee - for example, this appears to be the case at STC where the two committees form mutually exclusive groups. Another reason for exclusion from the Remuneration Committee seems to be serving as a specialist non-financial adviser, e.g., M. Beckett (a geologist) at Ultramar, or Professor Sir Sam Edwards (a scientist) at Lucas. In addition, being an executive with an overseas company mitigates against subcommittee service, e.g., G. Van Schaik (Chairman of Heineken) at Whitbread. Such overseas representation on British Boards is still relatively rare, as Charkham (1989) points out. Furthermore, service on the Remuneration Committee may not be seen as appropriate for

such directors, owing to a lack of knowledge of local labour market conditions.

By examining in Table 4 the differences in the percentage figures between the two columns, it seems that active outside executives have a lower than proportional chance (39.1% versus 54.1%), and retired executives a higher than proportional chance (41.9% versus 26.1%), of Remuneration Committee membership. The public sector figures show little difference, and the advisors are numerically too few to provide meaningful results. As active executives are, in general, more likely to be better paid than retired executives currently are or ever were, this result seems to rule out any self-serving manipulation of the membership of this Board subcommittee by the company's executives. There is certainly no evidence of such manipulation in the 42 of the 67 companies in our sample where all of the non-executives serve on the Remuneration Committee. Indeed this tendency to place the vast majority (82 per cent of our sample over all) of non-executive directors on the Remuneration Committee leaves very little room for membership control over and above what already exists in the context of non-executive director selection to the main Board.

Table 5 offers a slightly different, but related, perspective on the outside directors who serve on the Remuneration Committee. Thus of the 248 members of the 67 remuneration committees on which we have information, over one-third are retired outside executives and two-fifths are active outside executives. There are five companies with four active outside executives (British Airways, Courtaulds, Pearson, Tate & Lyle, and Vickers) and two with four retired outside executives (Cable and Wireless and Delta). The one company with two retired inside executives is Booker where the individuals concerned are Sir M. Caine (CEO at Booker between 1975 and 1984) and J. Haynes (an executive director at Booker until 1984).

Table 5

A more detailed analysis of non-executive directors who sit on remuneration committees

Category	Frequency	Average Number	Minimum Number	Maximum Number
Retired executive (other)	88 (35.48)	1.31	0	4
Retired executive (insider)	16 (6.45)	0.23	0	2
Active executive	97 (39.11)	1.47	0	4
Retired adviser	5 (2.01)	0.07	0	1
Active adviser	4 (1.61)	0.06	0	1
Public Sector	38 (15.32)	0.57	0	3
N	248			

Table 6 attempts to address the question of social influence as raised by Main et al. (1991), whereby those outside directors appointed by (after) the CEO are likely to look more favourably on his remuneration should they find themselves on the Remuneration Committee. Remuneration Committees are categorised in Table 6 by the proportion of the non-executive directors appointed after the highest-paid director took office. Grouped in these quartiles, the average pay of the highest-paid director in each group appears to be quite independent of this variable. For committees where less than one quarter of the outside directors were appointed by (after) the CEO, the average top pay is £279,315. This is little different from the £284,500 when the proportion is between one-half to three-quarters. More complex multivariate analysis also fails to reveal any significant relationship between the date of appointment of outside directors and the level of pay of the highest-paid director.

Table 6

The highest paid director's remuneration and the number of non-executive directors on the remuneration committee appointed after he took office

Proportion* of NEDS on the rem.com.appointed after the HPD	Average pay of HPD £	Frequency
Less than 1/4	297,315	19
Between 1/4 & 1/2	344,761	21
Between 1/2 & 3/4	284,500	12
More than 3/4	313,333	15
N		67

* *The number of non-executive directors appointed after the HPD took office as a proportion of the total number of non-executives on the remuneration committee.*

The related but distinct question of framing as discussed in O'Reilly et al. (1988) and Main et al. (1991) is examined in Table 7. Here, committees are ranked by the pay of the highest-paid outside director. Only 51 such pay levels for outside directors could be identified, and this includes 14 cases where the individual's pay was proxied by the pay of his home company CEO. There is clearly some association between these pay levels. Hence Sir Richard Giordano of BOC (own pay £1,025,000) has as the "highest-paid" outside director on his Remuneration Committee Robert Malpas, former CEO at BP (whose "pay" is proxied by that of BP's current CEO, R Morton, who was paid £708,702). An example where we have a direct observation of own pay in the company is Geoffrey Mulcahy who sits on the Remuneration Committee at BASS and whose own pay at Kingfisher was £657,000.

Table 7

*The pay of the highest paid director broken down by the pay of the highest paid non-executive director**

Pay of the HPD (£ 000 per annum)	Average of the highest paid non-executive director (£)	Frequency
> 1000	708702	1
900-1000	-	0
800-900	-	0
700-800	602500	1
600-700	769281	2
500-600	609438	4
400-500	895000	3
300-400	353593	8
200-300	282716	19
100-200	416167	12
< 100	110103	1
		Sum 51

* *Only 51 such pay levels for outside directors could be identified. This includes 14 cases where the individual's pay was proxied by the pay of his home company CEO.*

It is undoubtedly the case, however, that large (high-paying) companies are going to chose as outside directors those in similar (highly-paid) positions at other large companies. When an attempt is made to use multivariate techniques control for these various other factors, and thus eliminate any spurious correlation, it is found that the own pay of the outside director does exert a discernible influence on the pay awarded to the focal CEO.

Thus, in Table 8 the logarithm of the pay of the highest-paid director is regressed on the size of the company (logarithm of sales) and its performance in the form of stock market return and the abnormal return (the amount by which the company "beat the market" or otherwise). There are also descriptors of corporate governance in the form of whether the highest-paid director has an entrepreneurial interest (owns shares in excess of ten times the value of his salary); whether he is both Chairman and CEO, or is Chairman only (the omitted class being CEO only); the number of executives on the Remuneration Committee; and whether institutions such as insurance companies are represented.

As can be seen from the first column of Table 8, highest-paid director's pay is significantly related to size of company (a stable finding across time and countries according to Rosen (1990)) and to whether the director in question is both CEO and Chairman. This powerful position adds some 40 per cent to expected pay as opposed to being a CEO only. Of course, there has been a considerable backlash among institutional investors in recent years concerning the combination of the two roles of Chairman and CEO in one person. This last result may be an indication of the power that accrues to an individual holding such a position. Economic performance shows a modest statistical and empirical impact through abnormal return, but most of the other variables are insignificant.

The second column of Table 8 adds the current tenure of the highest-paid director (HPD) in his current position (sample size falls to 62). The results are little changed. The final column of Table 8 adds a description of the own pay (or at least a frame of reference measure of that pay in the form of pay of the CEO at the non-executive director's own company) of the highest-paid non executive director on the remuneration committee. Due to difficulty in finding data, the sample size in this column reduces to 48. A dummy variable is included to signify when the salary measure is the real thing or a proxy. It can be seen that after controlling for all these other influences (size, performance etc.) the pay of the outside director is not significantly related to the pay awarded by the Remuneration Committee. While great care must be taken not to place unjustified interpretations on this statistically insignificant result, the finding is at the very least consistent with the predictions of Tversky and Kahneman (1981) that in making judgements of what is or is not a reasonable pay award one is influenced by the frame of reference - in this context, one's own level of pay.

Table 8

The determinants of the log of CEO pay
for those companies with remuneration committees
(t-statistics in parentheses)

Independent Variable	(1)	(2)	(3)
CONSTANT	2.326 (2.27)	2.522 (2.52)	3.159 (2.76)
Log of Sales	0.232 (3.17)	0.213 (2.87)	0.099 (1.28)
Market Return	-0.0007 (0.24)	-0.001 (0.63)	-0.001 (0.51)
Abnormal Return	0.006 (1.47)	0.007 (1.74)	0.015 (3.44)
Entrepreneur	-0.035 (0.11)	0.007 (0.02)	-
Chairman & CEO	0.342 (2.14)	0.457 (2.68)	0.454 (2.71)
Chairman Only	0.204 (1.26)	0.283 (1.61)	0.068 (0.34)
Number on the Remuneration Committee	-0.005 (1.48)	-0.014 (0.29)	-0.029 (0.32)
Executive on the Remuneration Committee	-0.049 (0.32)	-0.155 (0.97)	-0.088 (0.40)
Institutions represented	-0.001 (0.008)	-0.014 (0.10)	0.197 (0.81)
Current tenure	-	0.008 (0.66)	0.010 (0.74)
Log of pay of the highest paid non-executive director	-	-	0.161 (1.42)
Proxy Own salary dummy	-	-	0.064 (0.39)
Adjusted R	0.21	0.25	0.45
F Statistic	2.99	3.06	4.51
N	67	62	48

Of course, as mentioned earlier and as explored in greater depth in Main and Johnston (1992), the interesting measure of how governance arrangements affect executive pay is not related to the level of pay as much as the way pay is structured. Other things equal, it would be expected that tighter governance arrangements would lead to a greater alignment of executive incentives and corporate interests. Specifically, one would expect there to be a greater fraction of the remuneration in performance-contingent form. As a breakdown between base pay and any performance-related bonus is not available for UK companies, the best measure of such contingent remuneration comes in the value of the executive's holding of company stock options relative to his pay.

This is explored in Table 9 in a similar framework to Table 8. The level of the highest-paid directors pay is included on the right-hand side as we wish to explore the composition of the pay package for any given level of remuneration. The composition of executive pay is captured by an expression[3] of the fraction of pay that is in the form of stock options. Owing to that lack of reported detail on the issuing of stock options to executives, this measure is far from perfect but it should capture, at least approximately, the extent to which remuneration has been made a function of company performance. Column 1 of Table 9 presents the results for the 58 companies on which we had sufficient data. Own pay is significant suggesting, sensibly in terms of risk aversion considerations, that the higher the level of pay the greater the proportion the executive is prepared to accept in the form of relatively risky stock options. The number of members of the Remuneration Committee increases the use of options but, surprisingly, the presence of institutional representatives (individuals with connections with pension funds etc.) actually decreases the propensity to utilise stock options. It is also notable that being both Chairman and CEO lowers the proportion of pay taken in the form of options.

Table 9

*CEO compensation structure as a function of company characteristics log (p/(1 - p))**
(t-statistics in parentheses)

Independent Variable	(1)	(2)	(3)
CONSTANT	-6.152	-5.190	-6.062
	(5.57)	(6.71)	(7.25)
Log of Sales	-0.090	-0.070	-0.079
	(1.82)	(1.87)	(1.85)
Level of own pay	0.506	0.432	0.562
	(6.07)	(6.89)	(7.65)
Market return	-0.0006	0.0003	-0.00001
	(0.37)	(0.26)	(0.01)
Abnormal return	-0.004	-0.002	-0.004
	(1.61)	(1.46)	(1.95)
Entrepreneur	0.143	-0.019	0.083
	(0.58)	(0.08)	(0.36)
Chairman & CEO	-0.225	-0.191	-0.235
	(1.84)	(2.26)	(2.44)
Chairman only	0.078	0.012	0.053
	(0.72)	(0.15)	(0.52)
Number on the Remuneration Committee	0.058	0.003	-0.002
	(1.98)	(0.14)	(0.10)
Executives on the Remuneration Committee	-0.121	-0.003	-0.120
	(1.19)	(0.14)	(1.13)
Institutions Represented	-0.217	-0.125	-0.199
	(2.21)	(1.75)	(2.48)
Current tenure	-	-0.007	-0.013
		(1.03)	(1.69)
Log of pay of highest paid non-executive director	-	-	-0.124
			(2.19)
Proxy own salary dummy	-	-	0.067
			(0.87)
Adjusted R	0.41	0.51	0.61
F Statistic	5.08	6.15	6.40
N	58	54	45

*[p = options/(options + pay)]

The second column of Table 9 introduces the current tenure of the highest-paid director. This makes little difference. Finally, column three adds the log of the pay of the highest-paid outside director. Here we see that there is a statistically significant negative relationship. Thus, the better paid the outside executive sitting on the Remuneration Committee, the lower the propensity to utilise stock options - other things equal. This is a surprising result[4] as one would have expected that such well-paid individuals would be less risk-averse and, therefore, more likely to advocate the use of stock options. The fact that there is any relationship between the nature of the pay of the CEO and the pay of an outside director who sits on the Remuneration Committee serves to underline the importance of the social psychology notions of social comparisons and of framing as introduced by Tversky and Kahneman.

Before leaving the topic of membership of the Remuneration Committee, it is interesting to arrange our data in a slightly different way. Rather than categorising outside directors by type of position held (active executive, retired executive etc.), the committee membership is examined for evidence of influence from institutional shareholders. In an analysis of Board membership Cosh and Hughes (1987) conclude

> the pattern of corporate share ownership in the UK is such that, in our sample of companies, a small number of financial institutions recur as significant owners and controllers of stock. They are therefore, by virtue of their position, potentially able to play a key role both in terms of influence over the composition of remuneration packages, and over key appointments.....

The three groupings chosen as indicators of institutional voice are merchant banks, insurance companies (pension funds etc.), and investment trusts. These are shown in Table 10, broken down by size of Remuneration Committee. The twelve Remuneration Committees on which we found merchant bankers are given in Table 10(i). All ten of the individuals involved held executive directorships in their respective merchant banks. Some eight merchant banks are involved. In contrast the representation of insurance companies and pension funds is less direct. On only two of the 20 Remuneration

Committees with insurance company representation is that in the form of executives from those companies (see Table 10(ii)). The second part of the same table makes clear that the vast bulk of the insurance company representation comes though non-executive directors sitting both on the boards of insurance companies and of the companies in question. This is quite an indirect form of representation. In fact Sir R. Lloyd has already been counted above as representing his merchant bank, Hill Samuel. The two roles are not inconsistent, but the Legal and General can scarcely claim a very direct voice through Hill Samuel's Sir R. Lloyd in pay determination at Siebe, Simon Engineering, and Vickers.

Finally, the last column of Table 10 indicates that investment trusts are more frequently represented, but no more likely to be directly represented than insurance companies. There are only three executive officers of investment trusts on the 67 Remuneration Committees examined. And Sir R. Lloyd again demonstrates the interesting cross-representations present through his executive position at Hill Samuel and his non-executive directorship at Legal and General, Equity Consort Investment Trust, Siebe, Simon Engineering and Vickers.

Thus, it is difficult to accept that there is much direct control influenced over corporate governance by the institutions. The plea made by Charkham (1989) for increased shareholder activism among the shareholders seems yet to have an impact. It must be concluded that what Charkham termed "the Wall Street Walk", the strategy of dumping, i.e. selling shares in under-performing companies, remains the prime corrective strategy adopted by the institutions. This in the face of the increased level of institutional shareholding making it difficult for all institutions to pursue such a course of action.

Table 10

Institutional representation on remuneration committees analysed by the size of the committee

Rem com size	N	One or more financial advisers	One or more insurance company reps	One or more investment trust reps
1	1	1	1	1
2	3	0	0	0
3	18	3	4	7
4	13	4	2	7
5	20	1	7	9
6	8	2	5	2
7	3	1	1	1
8	0	-	-	-
9	1	0	0	1
10	0	-	-	-
SUM	67	12	20	28

Table 10 (i)

Merchant Banks & Remuneration Committees
Companies for whom Executive Directors of Merchant banks sit on their Remuneration Committee

Executive Name	Own Company	Remuneration Committee
J.Padovan	BZW	Tesco
Sir.R.Lloyd	Hill Samuel	Siebe
Sir.R.Lloyd	Hill Samuel	Simon Engineering
Sir.R.Lloyd	Hill Samuel	Vickers
C.Reeves	Merrill Lynch	BICC
M.Robertson	Kleinwort Benson	Mowlem
H.Kopper	Morgan Grenfell	Pilkingtons
I.McIntosh	Samuel Montagu	IMI
R.Edrey	Rothschilds	Northern Foods
Earl Cairns	SG Warburg	BAT
M.Fisher	SG Warburg	Booker
Sir.D.Scholey	SG Warburg	BT

Table 10 (ii) A

Insurance Companies, Pension Funds & Remuneration Committees
Insurance Company & Pension Fund Executives who sit on Remuneration Committees

Executive Name	Own Company	Remuneration committee
D. White	National Freight Corporation Pension Nominees	Mowlem
T. Boyd	Scottish Widow (DC)	BAA

Table 10 (ii) B

Insurance company and pension fund non-executives who sit on remuneration committees

Director's name	Insurance company at which NED	Remuneration committee
C.Reeves+	Alliance Int'l Insurance	BICC
M.Fisher+	Commercial Union	Booker
Sir.C.Tugendhat	Commercial Union	BOC
Sir.P.Marshall	GRE Assurance	Boots
Sir.M.Palliser	GRE Assurance	Booker
J.Sheffield	GRE Assurance	Norcross
K.Dixon	Legal & General	BASS
Sir.R.Lloyd+	Legal & General	Siebe
Sir.R.Lloyd+	Legal & General	Vickers
Sir.R.Lloyd+	Legal & General	Simon Engineering
D.Hubbard	London & Manchester Grp	Powell Duffryn
D.Hubbard	London & Manchester Grp	Blue Circle
Sir.A.Pearce	Pearl Assurance	Smiths Industries*
M.Robertson	Provident Life Assurance	Mowlem
Sir.R.Dearing	Prudential	IMI
Sir.A.Jarrat	Prudential	Smiths Industries
P.Moody	Prudential	Laird Group
C.Southgate	Prudential	Lucas
R.Broadley	Royal Insurance Holdings	Blue Circle
Sir.E.Benson	Sun-Alliance	Boots**
Sir.D.Holden-Brown	Sun-Alliance	Allied Lyons
Lord Bancroft	Sun-Life Corpration	BASS
Lord Croham	Trinity Insurance	Pilkington

* *Also a director of Pro-ned.*
** *Benson was the vice-chairman of Sun-Alliance before he became the chairman of Boots.*
\+ *Also listed as an executive of a merchant bank.*

Table 10 (iii)

Investment Trusts & Remuneration Committees

Director's Name	Investment trust	Remuneration committee
Lord Armstrong*	Biotechnology Investments Ltd	BAT
A.Stenham	Bankers Trust	STC
C.Barker*	Brit.Inv.Trust (& others)	Reed Int'l
G.Duncan	City of London Trust	Laporte
Lord Remnant	City of London Inv.Trust	Ultramar
Hon.G.Wilson	English & International Trust	Blue Circle
Hon.G.Wilson	English & Int'l Trust	Delta
Sir.R.Lloyd+	Equity Consort Inv. Trust	SIEBE
Sir.R.Lloyd+	Equity Consort Inv.Trust	Vickers
Sir.R.Lloyd+	Equity Consort Inv.Trust	Simon Eng.
Baroness Barnes	Fleming Investment Trust	Boots
Sir.F.Kennedy	Fleming O'seas Inv.Trust	Smith & Nephew
Sir J.Egan	Foreign & Colonial Inv.Trust	BAA
A.Clements	Guiness Mahon	Cable & Wireless
A.Clements	Guiness Mahon	Granada
Sir.A.Pilkington	Hambros Advanced Tech.Trust	GKN
P.Swinstead	Independent Investment Trust	SD-Scicon
Sir.G.Brunton*	Martin Currie Pacific Trust	Cable & Wireless
Earl Limerick	Pacific Inv.Trust	De La Rue
R.Quartano	Postel Investment Mgmt.	Booker
Earl Harrowby	Private Bankers Trust	Dowty
J. Taylor	Sifida Investment Trust	Tate & Lyle
M.Davies	Worth Investment Trust	British Airways
J.Hignett	Whitbread Inv. Company	TI Group
M.Davies	Worth Inv. Trust	TI Group

* The directors holds an executive position in the investment trust.

\+ Already mentioned above under merchant banks.

5. Conclusion

There seems to be a marked divergence between what companies are prepared to disclose in the company reports concerning the existence and membership of Remuneration Committees and what they see themselves as doing. Thus, as reported above, Pro-Ned has found that many more companies claim to operate a Remuneration Committee than actually report the fact or disclose membership details in their annual reports. The present study has relied entirely on information in the public domain and the results, therefore, pertain to the open operation and disclosure of Remuneration Committees.

From the evidence presented above, it appears that just under one-third of large publicly-held companies are operating Remuneration Committees in a public fashion (and thereby complying with the injunctions of Pro Ned and of the Institutional Shareholders' Committee (ISC)). The data examined suggest that, if anything, the disclosed existence of such a committee is associated with higher levels of pay. And, as documented in Main and Johnston (1992), there is no evidence that they bring about any improved alignment of executive incentives through increasing the proportion of long-term compensation (value of stock options, in this case) in the executive's remuneration package.

The power the highest-paid director can be assumed to wield in the organisation, as measured by the combination of the offices of CEO and Chairman, does not influence the probability of there being a declared Remuneration Committee, but it does significantly increase the chances of the executive sitting on that committee. It is also, as we have seen, associated with an increase in pay and a reduction in the share of total remuneration taken as stock options.

In terms of executive participation in the Remuneration Committee, although not the rule (32 of the 67 committees examined have no executive members), it is quite common to have one or two executive members. This clearly opens up the possibility of self-serving pay awards though committee influence - and comes close to going against the admonition of the ISC that the Remuneration Committee should "consist solely or mainly of non-executive directors". It should therefore be emphasised that, in the multivariate statistical analysis of our data, there was no evidence that executive membership of the Remuneration Committee had boosted top executive pay.

In addition to executives, the individuals finding their way onto the Remuneration Committee comprise a reasonably representative sample of the non-executive directors on the Board. With around 82 per cent of all non-executive directors in companies that declare having Remuneration Committees actually serving on these committees, there is not much room for selection. This is in marked contrast with the USA, where there are many more non-executive directors on the Board. In the UK, it appears that retired outside executives are disproportionately more likely than active executives to be chosen to serve on the Remuneration Committee. Certain individuals who are on the Board possibly due to a particular technical competence may tend to be excluded. But the general rule is that most non-executives end up on the Remuneration Committee.

Perhaps for this reason, it was not possible to find any evidence of social influence through appointment to the Board as a non-executive after the current highest-paid director leading to any upward bias in pay awards. There was, however, some evidence (in multivariate analysis) of Tversky and Kahneman (1981) type framing, whereby outside executives who themselves earn large salaries exert an influence, through the Remuneration Committee, on the nature of pay that is awarded.

Finally, the role of the institutions whether as merchant banks, insurance companies/pension funds, or investment trusts was quite modest. Apart from merchant banks, representation tended to be indirect by way of a non-executive director at an insurance company or investment trust also being a non-executive director serving on the Remuneration Committee in question. There seems to be ample scope here for increased shareholder activism by way of direct Board membership as non-executives. This applies particularly to the executives of insurance companies and investment trusts.

From a policy perspective, a greater amount of public disclosure about corporate governance would be a useful step. This point has already been made by the Bank of England (1985). In terms of top executive pay, disclosure regulations along the lines of the SEC proxy regulations for the USA would considerably improve the public's understanding of what is going on in the companies that they own. This is particularly true under the new SEC guidelines recently brought into force.[5]

In addition the role of the Remuneration Committee could be considerably clarified and enhanced by a separate statement in each annual report regarding the activities of the committee, its deliberations, objectives and decisions taken in the course of the year. In its recent survey, Pro Ned (1992) found that very few company Boards have provided specific remits for their Remuneration Committees. Pro Ned concluded that most of the Remuneration Committees they examined owed their existence and authority to an enabling Board minute. As far as public disclosure is concerned it would appear that it is the minority of companies that even partially inform their stockholders as to what is going on.

One aspect has become clear in the analysis presented above. Remuneration Committees and, by extension, corporate governance in general can only operate in the shareholders' interest if there are available a sufficiency in quantity and quality of outside directors on the Board. This makes the selection and election process for outside directors of crucial importance. This nomination process, as it is sometimes known, currently rests almost entirely in the gift of the incumbent management. This is one area in which reform is necessary before any meaningful upheaval in corporate governance can become a reality. Simply grafting on an additional Board subcommittee will of itself do little either for the disciplines of top executive pay or for corporate governance in general.

References

Arrow, Kenneth J. (1971), *Essays in the theory of risk bearing,* New York: Markham Publishing Co.

Bank of England (1985), "The boards of quoted companies", *Bank of England Quarterly Bulletin,* Vol.25, No. 2 (June), pp.233-236.

Baumol, William J L (1959), *Business behaviour, value and growth.* Macmillan, New York.

Berle, Adolf A Jr. and Means, Gardner C. (1932), *The modern corporation and private property.* Macmillan Co., New York.

Braiotta, Louis Jr. and Sommer, A.A. Jr. (1987), *The essential guide to effective corporate board committees.* Prentice Hall.

Charkham, Jonathan (1989), "Corporate governance and the market for companies: aspects of the shareholders' role", Bank of England Discussion Paper, London (November).

Charterhouse (July 1991), *Charterhouse Top Management. Remuneration United Kingdom,* 1987-1990, Monks Partnership Ltd.

Cosh, A D and Hughes A (1987), "The anatomy of corporate control: directors, shareholders and executive remuneration in giant US and UK Corporations". *Cambridge Journal of Economics,* Vol ll, 285-313.

Crystal, Graef S. (1989), "Incentive pay that doesn't work", *Fortune,* August 28, pp. 101-102

Crystal, Graef S. (1991), *In Search of Excess: The over compensation of American Executives.* New York: W.W. Norton & Co.

Fama, Eugene F. (1980), "Agency problems and the theory of the firm", *Journal of Political Economy,* Vol. 88, No. 2 (April) pp.288-307.

Fama, Eugene F. and Jensen, Michael C. (1983), "Separation of ownership and control", *Journal of Law and Economics,* Vol. 26, No. 2 (June), pp.301-325.

Gibbons, Robert and Murphy, Kevin J. (1988), "Agency theory and the determinants of executive compensation", University of Rochester (October).

Gordon, Robert A. (1945), *Business leadership in the large corporation.* The Brookings Institute.

Grossman, Sanford and Hart, Oliver (1980), "Takeover bids, the free-rider problem, and the theory of the corporation", *Bell Journal of Economics,* Vol. ll, No. 1 (Spring), pp.42-64.

Harrison, J Richard (1987), "The strategic use of corporate board committees" *California Management Review,* No. 1 (Fall), pp.109-125.

Holmstrom, Bengt (1979), "Moral hazard and observability", *Bell Journal of Economics,* Vol. 10, No. 1 (Spring), pp. 74-91.

Institutional Shareholders' Committee (1991), *The responsibilities of institutional shareholders in the UK.* Institutional Shareholders' Committee, 51 Gresham Street, London EC2V 7HQ

Jensen, Michael C. (1983), "Organization theory and methodology", *The Accounting Review,* Vol. 58, No. 2 (April), pp.319-349.

Jensen, Michael C, and Meckling, William H. (1976), "Theory of the firm: managerial behaviour, agency costs and ownership structure", *Journal of Financial Economics,* Vol. 3, (October), pp. 305-360.

Lazear, Edward P and Rosen, Sherwin (1981), "Rank-order tournaments as optimum labour contracts", *Journal of Political Economy,* Vol. 89, No. 5 (October), pp.841-864.

Lorsch, Jay (1989), *Pawns or potentates. The reality of America's boards.* Harvard Business School Press, Boston.

Mace, Myles L (1971), *Directors: myth and reality.* Boston: Harvard Business School Press.

Main, Brian G M and Johnston, James (1992), "Remuneration Committees and Corporate Governance". University of Edinburgh, Department of Economics Discussion Paper (April).

Main, Brian G M, O'Reilly, Charles A. III, and Crystal, Graef S. (1992), "CEO pay and corporate governance", University of Edinburgh, Department of Economics, Discussion Paper (May).

Manne, Henry G. (1965), "Mergers and the market for corporate control", *Journal of Political Economy*, Vol. 73, pp.110-120.

Marris, Robin (1964), *Managerial capitalism*. The Free Press, New York.

Morck, Randall, Shleifer, Andrei and Vishny, Robert W. (1988), "Management ownership and market valuation. An empirical analysis", *Journal of Financial Economics*, Vol. 20, pp.293-315.

O'Reilly, Charles A.III, Main, Brian G M and Crystal, Graef S. (1988), "CEO compensation as tournament and social comparison: A tale of two theories" *Administrative Science Quarterly*, Vol.33, (June), pp. 257-274.

Pro Ned (1992), *Remuneration Committees. A survey of current practice.* 1 Kingsway, London, WC2B 6XF.

Pro Ned (undated), *Remuneration Committees. Some guidelines proposed by PRONED in consultation with its sponsors.* 1 Kingsway, London, WC2B6XF.

Ricketts, Martin (1987), *The Economics of Business Enterprise: New Approaches to the Firm.* Brighton: Wheatsheaf Books.

Roberts, David R (1959), *Executive Compensation*. Glencoe Ill.: Free Press.

Rosen, Sherwin (1990), "Contracts and the market for executives" National Bureau of Economic Research Working Paper, No. 3542.

Smith, Adam (1976), *An inquiry into the nature and causes of the wealth of nations* edited by Edwin Cannon. Chicago: The University of Chicago Press.

Times Books (1992), *The Times 1000 1990-91*. Times Books.

Tversky, A and Kahneman, D (1974) "Judgement and uncertainty: Heuristics and biases", *Science*, Vol. 185, pp.1124-1131.

Tversky, A and Kahneman, D. (1981), "The Framing of Decisions and the Psychology of Choice". *Science*. Vol 211, 30 January, pp.453-458.

UK's 10,000 largest companies 1991, Published by ELC International, Sinclair House, The Avenue, London, W13 8NT, UK.

Williamson, Oliver E. (1963), "Managerial discretion and business behaviour", *American Economic Review*, Vol.53, pp.1032-1057.

Williamson, Oliver E. (1985), *The Economic Institutions of Capitalism.* New York: Free Press.

Williamson, Oliver E. (1988), "Corporate Finance and Corporate Governance", *Journal of Finance*, Vol.32, No. 3 (July), pp. 567-591.

Notes

1. The Pro Ned (1992) survey was based on survey responses from 100 large public companies, 120 other companies drawn from Pro Ned files, and 100 smaller public and private companies known by Reward to use non-executive directors or Remuneration Committees. The aim of the survey was to examine Remuneration Committee practices.

2. The *Financial Times* of February 6 1992 led with an article reporting pressure on Lonrho from Pensions Investment Research Consultants to introduce to the Board a team of independent directors in view of the claim that "Lonrho's corporate governance has deteriorated in the course of the year from a low base."

3. The actual expression used is the fraction of cash pay and the value of stock option holdings that is held in the form of options. Options are taken as the current holdings by the executive in question and are evaluated at the prevailing market price. Accurate computation would require knowledge of the option strike price, the date of issue and the period of restriction. These results utilise the

"log-odds" transformation of the dependent variable , but also hold up when the simple fraction is used.

4. The results are unchanged when an alternative left-hand-side dependent variable is used, namely the raw ratio of options to options plus cash pay.

5. See the *Economist* 18 April 1992 for details.

APPENDIX A

COMPANY NAME	CEO NAME
BRIT. PETROLEUM	R.HORTON
SHELL TRANSPORT	SIR.P.HOLMES
BAT INDS	SIR.P.SHEEHY
IMP.CHEMICAL INDS.	SIR.D.HENDERSON
BRIT. TELECOM	I.VALLANCE
GRAND MET.	SIR.A.SHEPHERD
BRIT. GAS	R.EVANS
HANSON	LORD HANSON
SAINSBURY, J.	LORD SAINSBURY
BTR	SIR.O.GREEN
MARKS & SPENCER	LORD RAYNER
TESCO	SIR.I.MACLAURIN
GEN. ELECTRIC COMPANY.	LORD WEINSTOCK
BRIT. AIRWAYS	LORD KING
ALLIED LYONS	R.MARTIN
DALGETY	M.WARREN
BASS PLC	I.PROSSER
SAATCHI & SAATCHI	M.SAATCHI
HILLSDOWN HLGS	H.SOLOMON
THORN EMI	C.SOUTHGATE
ROLLS ROYCE	SIR.R.ROBBINS
TARMAC	SIR.E.POUNTAIN
LADBROKE GRP	C.STEIN
BICC	R.BIGGAM
ASDA	SIR.G.MESSERVY
GUINESS	A.TENNANT
BOOTS	SIR.J.BLYTH
TATE & LYLE	N.SHAW
INCHAPE	SIR.G.TURNBULL
CADBURY SCHWEPPES	N.CADBURY
LONRHO	R.ROWLAND
TRAFALGAR HOUSE	E.PARKER
BOOKER	J.TAYLOR
PILKINGTONS PLC	SIR.A.PILKINGTON

GLAXO HLDGS	SIR.P.GIROLAMI
ASSD. BRITISH FOODS	G.WESTON
BOC GRP.	R.GIORDANO
COURTALDS	SIR.C.HOGG
GUS	LORD WOLFSON
STC	A.WALSH
RMC GRP	J.CAMDEN
B.E.T.	N.WILLS
UNIGATE	J.CLEMENT
UNITED BISCUITS	R.CLARKE
CABLE & WIRELESS	LORD SHARP
BEAZER	B.BEAZER
BURMAH CASTROL	L.URQUHART
LUCAS	T.GILL
HAWKER SIDDELEY	A.WATKINS
W. H. SMITH GRP	SIR.M.FIELD
SEARS PLC	G. MAITLAND SMITH
WHITBREAD	P.JARVIS
GKN	D.LEES
AMEC	A.COCKSHAW
RACAL ELECTRONIC	SIR.E.HARRISSON
BERISFORD	J.SCLATER
GEO WIMPEY	SIR.C.CHETWOOD
WOLSELEY	J.LANCASTER
COATS VIYELLA	SIR D.ALLIANCE
BURTONS	SIR.J.HOSKYNS
LEX SERVICE GRP	SIR.T.CHINN
HARRISONS & CROSSFIELD	G.WILLIAM PAUL
RANK HOVIS MACDOUGALL	S.METCALFE
DIXONS	S.KALMS
RECKITT & COLEMAN	J.ST.LAWRENCE
ULTRAMAR	J.DARBY
PLESSEY	SIR.J.CLARK
REED INT'L	P.DAVIS
ROTHMANS INT'L	LORD SWAYTHLING
PEARSON	VISCOUNT BLAKENHAM
JOHN MOWLEM & COY.	SIR P.BECK
JOHN LANG	M.LAING

JOHNSON MATTHEY	R.WAKELING
COSTAIN	P.COSTAIN
WELLCOME	SIR.A.SHEPHERD
COOKSON GRP	R.OSTER
BUNZL	J.WHITE
KWIK SAVE GRP	G.SEABROOK
GRANADA	A.BERNSTEIN
THE LEP GRP	J.READ
SIEBE	E.STEPHENS
RANK ORGANISATION	M.GIFFORD
STOREHOUSE GRP	M.JULIEN
REDLAND PLC	SIR.C.CORNES
TAYLOR WOODROW	P.DREW
BOWATER	J.LYON
T & N	C.HOPE
ECC GRP	A.TEARE
MAXWELL COMMS.	R.MAXWELL
SCOTTISH & NEWCASTLE	A.RANKIN
BBA GRP	J.WHITE
BLUE CIRCLE INDS.	J.MCCOLGAN
FISONS	J.KERRIDGE
POLLY PECK INT'L	A.NADIR
NURDIN & PEACOCK	D.ROWLEY
GLYNWED INT'L	G.DAVIES
NORTHERN FOODS	C.HASTINGS
JAGUAR	SIR.J.EGAN
TOZER, KEMSLEY & MILLBOURN	R.HEATH
BPB INDS.	A.TURNER
FKI	N.SCOULAR
IMI.	C.ALLEN
AAH HOLDINGS	B.PYBUS
WPP GRP	M.SORRELL
APV	F.SMITH
NEXT	D.JONES
RATNERS	G.RATNER
TI GRP	C.LEWINTON
GESTETNER	B.SELLARS
WILLIAMNS HLDGS.	A.RUDD

UNITED NEWSPAPERS
HUNTING
NEWS INT'L
DELTA
VICKERS
MORRISSON,WM
DRG
DOWTY
SMITH & NEPHEW
ICELAND FROZEN FOODS
TOMKINS
ALFRED MACALPINE
SMITHS INDS.
B A A
STEETLEY
FITCH LOVELL
DAILY MAIL & GEN TRUST
MARLEY
B.S.G. INT'L
POWELL DUFFRYN
WICKES GRP
MECCA LEISURE GRP
MORGAN CRUCIBLE
TRANSPORT DEVLPT GRP
BARRAT DEVPTS
RUGBY GRP
AMSTRAD
HAZELWOOD FOODS
FOSECO
BIBBY, J.
SIMON ENGINEERING
T.COWIE PLC
SECURICOR GRP PLC
TOOTAL
GEEST
OWNERS ABROAD
GREENALL WHITLEY
BLACKWOOD HODGE

LORD STEVENS
K.MILLER
A.KNIGHT
R.EASTON
SIR.D.PLASTOW
K.MORRISON
J.MOGER WOOLEY
A.THATCHER
J.ROBINSON
P.HINCHCLIFFE
G.HUTCHINGS
R.MACALPINE
F.HURN
SIR.N.PAYNE
R.MILES
F.HAWKINS
C.SINCLAIR
G.RUSSELL
T.CANNON
B.ANDREWS
H.SWEETBAUM
G.GUTHRIE
E.FALMER
SIR.J.DUNCAN
J.SWANSON
P.CARR
A.SUGAR
P.BARR
R.JORDAN
R.MANSELL-JONES
B.KEMP
T.COWIE
R.WIGGS
G.MADDRELL
D.SUGDEN
H.KLEIN
A.THOMAS
K.SCOBIE

LAIRD GRP
QUEENS MOAT HOUSES
APPLEYARD
SECURITY SERVICES
LAPORTE
CHARTER CONSD.
DAWSON INT'L
NORCROSS
YALE & VALOR
WESTLAND GRP
HICKSON INT'L
HUNTING ASSD. INDS.
Y.J. LOVELL
ELECTROCOMPONENTS
PLAXON
EVANS HALSHAW
DAVIES & NEWMAN
LOOKERS
CRODA INT'L
DAVID. S. SMITH (HLDGS).
MCKECHNIE
HADEN MACLELLAN
LOW, WM.
LONDON INTERNATIONAL
DE LA RUE
PERRY GRP
IBSTOCK JOHNSEN
HEYWOOD WILLIAMS
MACARTHY
BATELEYS OF YORK
LILLEY
SENIOR ENGINEERING
BULLOUGH
HOWDEN GRP
HESTAIR
CENTRAL IND.TV.
LOW & BONAR
RENTOKIL

J.GARDINER
J.BAIRSTOW
M.WILLIAMSON
R.WIGGS
K.MINTON
J.HERBERT
P.DAWSON
M.DOHERTY
M.MONTAGUE
A.JONES
T.ROBSON
K.MILLER
A.WASSELL
SIR.K.BRIGHT
D.MATTHEWS
A.DALE
F.NEWMAN
W.MARTINDALE
K.HOPKINS
R.BREWSTER
M.OST
M.HAWLEY
J.MILLAR
A.WOLTZ
J.MARSHALL
R.ALLAN
I.MACLELLAN
R.HINCHCLIFFE
I.PARSONS
L.BATELEY
R.RANKIN
D.MACFARLANE
D.BATTLE
K.JOHNSEN
D.HARGREAVES
L.HILLS
P.JARVIS
C.THOMSON

CHLORIDE GRP	R.HORROCKS
LAURA ASHLEY HLDGS	SIR.B.ASHLEY
UNITECH	P.CURRY
BRYANT GRP	A.MACKENZIE
SCAPA GRP	R.GOODALL
EMAP	R.MILLER
STAVELY INDS	B.KENT
A.B. ELECTRONICS	E.MERRETTLE
THAMES TV	R.DUNN
DOBSON PARK INDS	A.KAYE
ACATOS & HUTCHESON	I.HUTCHESON
SD-SCICON	P.SWINSTEAD
AVON RUBBER	A.MITCHARD
CALOR GRP	D.MITCHELL
EVERED	R.KETTLE
SKETCHLEY	M.GLENN
PORTALS GRP	M.MORLEY
JAMES FINLAY	R.MUIR
ALEXON GRP	D.COHEN
MOUNT CHARLOTTE	B.PEEL
SECURIGAURD PLC	A.BALDWIN
STAKIS	A.STAKIS
JOHNSON GRP CLEANERS	T.GREER
BODDINGTONS	H.REID
S.R.GENT	P.WETZEL
GREGGS	M.DARRINGTON
VSEL CONSORTIUM	C.DAVIES
WOOD, SW.	B.GIDDINGS
AFRICAN LAKES	P.MACKENZIE
RCO HLDGS.	A.RAVEN
LEEDS GRP	R.WADE
DANIELS, S	P.DANIELS
WIGGINS GRP	G.LANSBURY
DEWHURST PLC	T.DEWHIRST

Sample size= 220

APPENDIX B

Those companies in our sample reporting the existence of a renumeration committee.

COMPANY	CEO
ALLIED LYONS	R.MARTIN
B A A	SIR.N.PAYNE
BASS PLC	I.PROSSER
BAT INDS	SIR.P.SHEEHY
BBA GRP	J.WHITE
BICC	R.BIGGAM.
BLUE CIRCLE INDS.	J.MCCOLGAN
BOC GRP.	R.GIORDANO
BOOKER	J.TAYLOR
BOOTS	SIR.J.BLYTH
BPB INDS.	A.TURNER
BRIT. AIRWAYS	LORD KING
BRIT. TELECOM	I.VALLANCE
BUNZL	J.WHITE
BURTONS	SIR.J.HOSKYNS
CABLE & WIRELESS	LORD SHARP
CHARTER CONSD.	J.HERBERT
COOKSON GRP	R.OSTER
COSTAIN	P.COSTAIN
COURTALDS	SIR.C.HOGG
CRODA INT'L	K.HOPKINS
DAVID. S. SMITH (HLDGS).	R.BREWSTER
DE LA RUE	J.MARSHALL
DELTA	R.EASTON
DIXONS	S.KALMS
DOWTY	A.THATCHER
ELECTROCOMPONENTS	SIR.K.BRIGHT
EVERED	R.KETTLE
GEN. ELECTRIC COMPANY.	LORD WEINSTOCK
GESTETNER	B.SELLARS
GKN	D.LEES

GRANADA
GRAND MET.
IMI.
JOHN MOWLEM & COY.
JOHNSON MATTHEY
KWIK SAVE GRP
LAIRD GRP
LAPORTE
LONDON INTERNATIONAL
MARLEY
NORCROSS
NORTHERN FOODS
PEARSON
PILKINGTONS PLC
POWELL DUFFRYN
RECKITT & COLEMAN
REDLAND PLC
REED INT'L
RENTOKIL
SAATCHI & SAATCHI
SD-SCICON
SIEBE
SIMON ENGINEERING
SMITH & NEPHEW
SMITHS INDS.
STC
T & N
TATE & LYLE
TESCO
THORN EMI
TI GRP
ULTRAMAR
UNITED NEWSPAPERS
VICKERS
WHITBREAD
Y.J. LOVELL

A.BERNSTEIN
SIR.A.SHEPHERD
C.ALLEN
SIR P.BECK
R.WAKELING
G.SEABROOK
J.GARDINER
K.MINTON
A.WOLTZ
G.RUSSELL
M.DOHERTY
C.HASTINGS
VISCOUNT BLAKENHAM
SIR.A.PILKINGTON.
B.ANDREWS
J.ST.LAWRENCE
SIR.C.CORNES
P.DAVIS
C.THOMSON
M.SAATCHI
P.SWINSTEAD
E.STEPHENS
B.KEMP
J.ROBINSON
F.HURN
A.WALSH
C.HOPE
N.SHAW
SIR.I.MACLAURIN
C.SOUTHGATE
C.LEWINTON
J.DARBY
LORD STEVENS
SIR.D.PLASTOW
P.JARVIS
A.WASSELL

Sample size = 67

The David Hume Institute

The David Hume Institute was registered in January 1985 as a company limited by guarantee: its registration number in Scotland is 91239. It is recognised as a Charity by the Inland Revenue.

The objects of the Institute are to promote discourse and research on economic and legal aspects of public policy questions. It has no political affiliations.

The Institute regularly publishes two series of papers. In the **Hume Paper** series, published by Aberdeen University Press, the results of original research by commissioned authors are presented in plain language. **The Hume Occasional Paper** series presents shorter pieces by members of the Institute, by those who have lectured to it and by those who have contributed to 'in-house' research projects. From time to time, important papers which might otherwise become generally inaccessible are presented in the **Hume Reprint Series**. A complete list of the Institute's publications follows.

Hume Papers

1 Banking Deregulation (out of print) *Michael Fry*
2 Reviewing Industrial Aid Programmes:
(1) The Invergordon Smelter Case *Alex Scott and Margaret Cuthbert*
3 Sex at Work: Equal Pay and the "Comparable Worth" Controversy *Peter Sloane*
4 The European Communities' Common Fisheries Policy: A Critique *Anthony W Dnes*
5 The Privatisation of Defence Supplies *Gavin Kennedy*
6 The Political Economy of Tax Evasion *David J Pyle*
7 Monopolies, Mergers and Restrictive Practices: UK Competition Policy 1948-87 *E. Victor Morgan*

Published by Aberdeen University Press

8 The Small Entrepreneurial Firm *Gavin C Reid and Lowell R Jacobsen*

9 How should Health Services be Financed? *Allan Massie*

10 Strategies for Higher Education—The Alternative White Paper *John Barnes and Nicholas Barr*

11 Professional Liability *Roger Bowles and Philip Jones*

12 Deregulation and the Future of Commercial Television *Gordon Hughes and David Vines*

13 The Morality of Business Enterprise *Norman Barry*

14 Copyright, Competition and Industrial Design *Hector MacQueen*

15 Student Loans *Nicholas Barr*

16 Agathotopia: The Economics of Partnership *James E Meade*

17 Beyond the Welfare State *Samuel Brittan and Steven Webb*

Hume Occasional Papers

1 What to Do About the Over-Valued Dollar *Ronald McKinnon*

2 The Political Economy of Pension Provision *Alan Peacock and Norman Barry*

3 The Regularities of Regulation *George J. Stigler*

4 How Safe is the Banking System? *Richard Dale*

5 Economic Issues in Merger Policy (out of print) *E. Victor Morgan*

6 The Regulation of the Telecommunications Industry *Bryan Carsberg*

7 The Novelist's View of the Market Economy *Allan Massie*

8 Understanding Mrs Thatcher: Conservative Economic Policy 1979-1987 *David Simpson*

9 Adam Smith and Economic Liberalism *Andrew Skinner*

10 Long-term Savings in an Enterprise Economy: A Case Study of the Principles and Practice of UK Economic Policy *Jack Wiseman*

11 Contemporary Problems in Commercial Litigation *David Edward, Lord Ross with a Commentary by Catherine Montgomery Blight*

12 Industry, Money and Markets: A Means to Irish Unification *W Duncan Reekie*

13 The Future of Legal Systems *Thijmen Koopmans*

14 Mergers and Takeovers: Short and Long-Term Issues *Sir Gerald Elliot*

15 The Takeover Boom: An International and Historical Perspective *Graham Bannock*

16 The Regulation of the Water Industry. The Office of Water Services: Structure & Policy *Ian Byatt*

17 Corporate Takeovers and the Interests of Regions and Local Communities *Brian Ashcroft and James H. Love*

18 Evidence Submitted to the Inquiry into Corporate Takeovers in the United Kingdom, Vol 1

19 Takeover Activity and Differential Returns to Shareholders of Bidding Companies *Robin Limmack*

20 Finance and Takeovers *David Gowland*

21 The U.K. Panel on Takeovers and Mergers: An Appraisal *W.A.P. Manser* (out of print)

22 Efficient Markets and the Rationale of Takeovers *Gavin C Reid*

23 Corporate Takeovers - The Need for Fundamental Rethinking *Allen Sykes* (out of print)

24 The Stock Market and Mergers in the United Kingdom *E. Victor Morgan and Ann D. Morgan*

25 Investment Managers and Takeovers: Information and Attitudes *E. Victor Morgan and Ann D. Morgan*

26 Taxation and Mergers Policy *John Chown*

27 Evidence from, The Scottish Office, The Edinburgh University Centre for Theology and Public Issues and Mr D. Henry

28 The Building of the New Europe: National Diversity versus Continental Uniformity *J.E. Meade*

29 The Control of Mergers and Takeovers in the EC *Robert Pringle*

30 How Level a Playing Field does Company Law Provide? *Robert Jack*

31 The Nestlé Takeover of Rowntree *Evan Davis and Graham Bannock*

32 The Power of the Lobbyist: Regulation and Vested Interest, *Michael Casey*

33 Takeovers and Industrial Policy: A Defence, *Graham Bannock and Alan Peacock*

34 The Contemporary Relevance of David Hume, *Robert Pringle*

Books

The Deregulation of Financial Markets
edited by Richard Dale, Woodhead-Faulkner, London, 1986

Governments and Small Business
Graham Bannock and Alan Peacock, Paul Chapman, London, 1989

Corporate Takeovers and the Public Interest
Graham Bannock and Alan Peacock, Aberdeen University Press, 1991

Social Policies in the Transition to a Market Economy: Report of a Mission to the Russian Federation organised by the United Nations January 1992
Michael Hay and Alan Peacock, Alden Press, Oxford 1992

Hume Reprints

1 The 'Politics' of Investigating Broadcasting Finance *Alan Peacock*

2 Spontaneous Order and the Rule of Law *Neil MacCormick*

Hume Papers No 8 et seq. may be obtained from Aberdeen University Press, Farmers Hall, Aberdeen AB9 2XT, Scotland, Tel 0224 641672.

Other publications may be obtained from:

The Secretary, The David Hume Institute, 21 George Square, Edinburgh EH8 9LD, Tel 031 667 7004: Fax 031 667 9111.