

Good morning everyone. I hope you've had a good week. Have you all had a chance to look at the handouts I gave you last Tuesday?

Good. OK, let's get started, shall we? As I said last week, today we'll be taking a critical look at CEOs and their pay packages. So, how does a company decide what level of pay to offer a new CEO? Well, a boss's remuneration is largely determined at the time of his or her appointment, which actually follows a fairly standard procedure. As soon as the CEO position becomes vacant, a selection committee tends to be appointed. And a recruitment consultant is usually invited in to help the committee. To determine what the new CEO's salary should be, consultants make use of benchmarks – looking at standards within the industry. They look at packages for executives at peer companies, that is, companies which are similar in terms of size and what they focus on. The question is whether this approach – and it is widespread – actually works.

But doesn't that just mean that bosses' pay goes up and up?

Exactly! You see, no selection committee wants to award their new choice less than the industry average. For one thing, they think they won't be able to attract the best person to the job – and also, they believe it'll suggest that their company's settled for someone less than average. And that isn't all! You get further issues because the increase in pay doesn't seem to mean an increase in the time the new CEO stays in his or her job – their tenure. If you look at this slide for a moment – oh, it'd help if I had it the right way up – it shows the average tenure of top bosses over the last few years. As you can see, it's getting shorter and shorter, especially in Europe. In fact, a recent report from consultants at Booz Allen Hamilton showed that the turnover of top CEOs has almost tripled since 1995! So they're getting paid more for doing less for the companies they're appointed to!

But it's difficult to see who'll be brave enough to go against the benchmarking trend when it comes to deciding on remuneration. Having said that, a number of recent scandals over executive pay mean that some people are looking more closely at those who agreed to the contracts in the first place. But for the future of these businesses, what's needed is a major change – not a few reactions to scandals. So, what's the answer? Well, for a start, many people feel that if members of compensation committees were held more regularly accountable – I mean really held responsible – for the contracts they approve, then employees, shareholders and the general public might find that fewer CEO contracts were so shocking. Jo, I can see you want to say something.

I'm not sure I understand what you're saying about accountability. Are you saying that we need changes in the law ...?