Yasmine Chahed, LSE London / Berlin
Hans-Erich Müller, FHW June 2006

# Executive Pay (Directors' Remuneration) and Corporate Success - An international comparison -*

1. "Do managers deserve what they earn?" In the current debate on corporate success and manager remuneration it becomes clear that variable, performance based remuneration elements may contribute to both good and bad governance. Not only distributional justice and ethical appropriateness considerations regarding directors' pay but also its effectiveness as a corporate governance mechanism are therefore put to test.

2. The statement that bad management theories could destroy good management practice (Ghoshal 2005) also applies to performance based remuneration of top-managers. The predominance of shareholder-value and principal agent-models rather seemed to poison than to cure corporate governance, and contributed to the remuneration excesses and corporate scandals in the USA.

3. In addition, complex and dynamic business environments do neither allow for the definition of accurate measures of corporate performance nor for the identification its causes. Thus, the question arises whether, for instance, non-financial and ethical values were as relevant for corporate success as financial value enhancement. Holistic value-based performance management systems could – other than often expected – capture non-financial factors, such as employees, customers, and other operational drivers of the business' strategy.

4. That relationship is particularly desirable regarding the criticism on performance based manager pay. Especially the debates on Balanced Scorecard (BSC)-systems establish hope for a stronger orientation to the wider economic and social responsibility of the enterprise. However, business practice reveals that problems with defining and implementing non-financial performance measures could almost nullify the theoretical superiority of BSC-systems, and that lacking transparency to outsiders may open up such systems to manipulation.

5. In response, increased transparency on management remuneration packages developed into an instrument for improved internal performance orientation and external legitimation. Top-management remuneration is no longer a "private issue" as the world's largest enterprises are also political institutions whose activities have wide ranging effects on society. Thus, business success also requires public legitimacy, and increased transparency provides a control mechanism for external stakeholders.

6. The international comparison of corporate governance systems in Germany, Sweden, and the UK indicates that traditional shareholder- or stakeholder-approaches cannot explain the recent dynamics in corporate governance regulation. The detailed British reporting requirements on directors' individual payments and on the remuneration policy have established thought leadership for EU recommendations and legal reform in Germany and Sweden.

7. However, more mainly *ex post* control-mechanisms alone miss their goal. Good corporate governance still requires some degree of "voice" for stakeholders to establish trust in internal decision making. Hence, holistic concepts of strategic management and performance measurement seem to provide a better basis for corporate governance and –control and could support the advancement of fair performance review and remuneration systems for managers.

---

* Yasmine Chahed und Hans Erich Müller: Managervergütung und Unternehmenserfolg - Ein internationaler Vergleich. München, Mehring: Rainer Hampp Verlag 2006, 135 pages.