Institutionalising the Discourse of Executive Remuneration: An Analysis of Corporate Governance Codes and Annual Reports from Australia, New Zealand and the United Kingdom

Neil Crombie (University of Canterbury)

The recurrent crisis in corporate governance has led to periodic reviews of corporate governance codes of best practice in most developed countries. These codes tend to recommend the same set of executive remuneration policies. The Cadbury and Greenbury reports issued in the UK in 1992 and 1995 respectively have been the most influential. This study finds that the language of the Cadbury and Greenbury reports have been perpetuated through subsequent regulations (e.g. codes of best practice) and companies' annual reports in Australia, New Zealand and the United Kingdom (UK). The language consists of phrases such as 'attract, motivate and retain', 'fair and competitive' and 'align interests' which collectively are supposed to explain or justify executive remuneration. These explanations of executive remuneration are consistent with notable academic theories such as human capital, market and agency theory.

This paper studies the influence of regulations on the disclosure in companies' annual reports in Australian, New Zealand and the UK. In comparing the disclosure of companies in their 1998 and 2007 annual reports, the content analysis reveals that the disclosure became homogeneous and consistent with the regulations in Australia and the UK, but not in New Zealand. As there are few regulations in New Zealand related to executive remuneration, it is not surprising that the amount of voluntary disclosure in New Zealand companies' annual reports has been minimal. These findings support institutional theory's notion of institutional isomorphism: Normative pressure transmitted the language (or discourse) of executive remuneration from academia to practice; Coercive pressure has compelled companies to adopt this language in their annual reports; Mimetic pressure has reinforced this pattern in disclosure.

The coercive pressure of regulation has been the most influential on companies' disclosure behaviour. Australian and UK regulations have adopted a 'comply or explain' approach to their corporate governance codes of best practice. As many directors' and executives' associations have been involved with the writing of these regulations, it is not surprising that companies have willingly adopted the language within the regulations. While the explanations of executive remuneration within this language (or discourse) are individually compelling, as a set of explanations there are conflicts, inconsistencies and ambiguities. It has long been argued that one-size does not fit all, yet a 'boilerplate' approach to executive remuneration policy has emerged. The institutionalisation of the discourse of executive remuneration has been bad for practice because it provides boards of directors with a seemingly credible defence against challenges to their executive remuneration practices and has led to homogeneity in disclosure.

Correspondence Details

Mr Neil A Crombie
Department of Accounting and Information Systems
University of Canterbury
Private Bag 4800
Christchurch 8140
New Zealand

Email: neil.crombie@canterbury.ac.nz
Web: http://www.acis.canterbury.ac.nz/

1.0 Introduction

> "I succumbed more than I should have to the two favourite siren songs of American CEOs. First, if your company has performed brilliantly, then you should pay your top people brilliantly. However, if your company has performed poorly, you can't afford to make people suffer very much, because they will simply leave and go elsewhere; in other words, you have to keep good people. Simple logic, of course, mandates that there can be very few effective people at the top of a lousy-performing organization. But simple logic was apparently not my forte. As a result, I helped create the phenomenon we see today: huge and surging pay for good performance, and huge and surging pay for bad performance, too." (Crystal, 1991, p.11)

In his book, *In Search of Excess*, Graef Crystal (1991) described how compensation consultants justified executive remuneration to boards of directors, shareholders and society. There are many logics used to justify executive remuneration which can be found in the press releases and annual reports of companies (Zajac and Westphal, 1995), the corporate governance codes of best practice of countries (Point and Tyson, 2006) and the journal articles of academics (St-Onge et al., 2001). For example, the *agency logic* asserts that incentives are required to align the interests of executives with those of shareholders, whereas the *human resources logic* asserts that remuneration is needed to attract and retain scarce managerial talent (Zajac and Westphal, 2004). Legitimacy theory (Ashforth and Gibbs, 1990; Deegan, 2006) contends that these remuneration logics are used to confer legitimacy on organisations, particularly the boards of directors as they have to justify or explain their decisions to shareholders and society.

Logics consist of one or more statements designed to persuade, convince or influence the opinion of others. The logics used to justify executive remuneration (hereinafter, remuneration logics) can be classified as rhetoric (see Larson, 2004 for a review of rhetoric analysis). In the classical sense, an orator uses rhetoric to persuade the audience of the correctness of their argument. The focus of this study is on the rhetoric within texts rather than speeches. Corporate governance codes of best practice, commissioned reports on executive remuneration, hard regulation such as laws and soft regulation such as listing rules (hereinafter, regulations) contain remuneration logics designed to convince companies to adopt certain executive remuneration practices. Annual reports also contain remuneration logics designed to convince shareholders and society that the companies' executive remuneration practices are legitimate.

This research is concerned with how regulators and companies use remuneration logics to explain executive remuneration practices. Content analysis is used to examine the remuneration logics within texts from three countries, namely Australia, New Zealand and the UK. These countries are similar in many respects due to their historical economic and political ties. However, the amount of regulation and the size of the companies across these countries are quite different. Regulations published between 1991 and 2008 from these three countries are examined. Annual reports from the largest 50 listed companies in 1998 and 2007 from each of these three countries are also examined. The research traces the origins of the most prominent remuneration logics in these texts and the diffusion of these remuneration logics over time. Initially this research focused on the global financial crisis occurring in the early 2000s as exemplified by the Enron scandal and how the changes in subsequent regulations influenced the reporting behaviour of companies in Australia, New Zealand and the UK. However, the scope of the research was expanded to include earlier regulations, particularly the influential Cadbury (1992) and Greenbury (1995) reports in the UK[1].

DiMaggio and Powell (1983, p.147) asked “What makes organizations so similar?” Their answer was institutional isomorphism in the form of three pressures: normative, coercive and mimetic. These pressures influence organisations, particularly when organisations undergo change. A financial crisis can be a catalyst for organisational change. Shareholders and others will often blame the boards of directors and executives of companies for the financial crisis as well as seeking out alternative ways thinking and organising. So existing logics may be discarded and replaced with new or previously unpopular logics. For example, the independence of directors and the separation of chair and CEO have increased in popularity due to the Enron scandal. Regulators (e.g. securities commission) will often commission reports into the causes of financial crises and issue new regulations to prevent reoccurrences. These regulations are likely to be entrenched in popular (normative) logics. In order to defend their legitimacy, companies may imitate other (successful) companies, adopt (changing) social norms or comply with (new) regulations.

Institutional theory asserts that organisations risk loosing their legitimacy if they do not conform to isomorphic pressures. However, organisations “are also capable of responding to these influence attempts creatively and strategically” (Scott, 2008, p.178). Isomorphic pressures are not always homogeneous, do not necessarily change rapidly and are not outside the influence of organisational actors. For example, Sir Richard Greenbury was both the Chair and CEO of UK retailer Marks and Spencer and the Chair of a commissioned report on directors remuneration (Greenbury, 1995). Companies may be able to manipulate the public’s mood for change in their favour, which leads to the reinforcement of the status quo, rather than any meaningful changes. Similarly, companies may decouple the remuneration logics espoused in their annual reports from the underlying reality of their executive remuneration practices. While institutional theory asserts that organisations will

[1] While regulations are examined from 1991 to 2008, the annual reports of companies are only examined in 1998 and 2007 because of time constraints and unavailability of annual reports prior to 1995.

conform, legitimacy theory asserts that there are many reasons why organisations may choose to conform (Deegan, 2006). Firstly, the conformity may be an illusion as the organisations have manipulated the isomorphic pressures so that they do not have to change. Secondly, the conformity may be symbolic in that the organisation's outside appearance is decoupled from its underlying reality. Thirdly, the conformity may be substantive as the organisation changes its practices.

In comparing the disclosure of companies in their 1998 and 2007 annual reports, this study found that the amount of disclosure in the annual reports of New Zealand companies is much lower than that of Australian and UK companies as comparatively the New Zealand environment has been relatively devoid of regulations. The contents of the disclosure in the companies' annual report has converged over time and become increasingly consistent with the regulations. However, the high degree of homogeneity in the disclosure of companies limits its meaningfulness. Institutional theory explains these patterns: Normative pressure, such as academics advocating the merits of agency theory, has transmitted many of the remuneration logics from theory to practice; Coercive pressure in the form of homogeneous regulations have compelled companies to use a standard set of executive remuneration policies; Mimetic pressure as companies copy their peers has reinforced the standard set of executive remuneration policies. Consistent with legitimacy theory, companies have managed these isomorphic pressures by, for example, having their representatives on the committees which establish regulations. It has long been argued that one-size does not fit all, yet a "boilerplate" approach to executive remuneration policy has emerged.

This research contributes to institutional theory, legitimacy theory and discourse analysis. Studies in corporate governance have often not linked regulations with the reporting behaviour of companies (e.g. Aguilera and Cuervo-Cazurra, 2004; Enrione et al., 2006; Zattoni and Cuomo, 2008). Further, studies of executive remuneration policy have sought to determine the antecedents and effects of disclosure practices (e.g. Zajac and Westphal, 1995 and Wade et al., 1997), rather than the institutional causes for the change in reporting behaviour. Also, Phillips et al. (2004) expressed concern than discourse has not been adequately considered in studies of institutionalisation. These limitations are addressed in this research as it explains how regulations and the annual reports of companies have changed over time, particularly how they have responded to financial crises. Moreover, the comparative analysis of Australia, New Zealand and the UK shows how institutions and organisations in different environments respond to global events. Finally, this research shows how companies strategically manage isomorphic pressures (Oliver, 1991) and symbolically manage their legitimacy (Ashforth and Gibbs, 1990).

Instead of investigating the level of executive remuneration or the structure of executive remuneration, this research takes a novel approach by examining the remuneration logics used to justify executive remuneration practices in regulations between 1991 and 2008 as well as the 1998 and 2007 annual reports of companies in Australia, New Zealand and the UK. The paper is organised as follows. First, the most prominent remuneration logics within these texts are defined and discussed. Second, a model of the process of the institutionalisation of these remuneration logics is developed. The remaining sections include the research method, findings, discussion and conclusion.

2.0 Justifying Executive Remuneration Practices

A pilot study was undertaken to determine the breadth of logics used to justify executive remuneration practices. Several annual reports of companies in Australia, New Zealand and the UK were analysed. While many remuneration logics were identified, only the most popular remuneration logics were included in this research (see table 1).

--- Insert Table 1 here ---

The central premise of this research is that the remuneration logics used in practice are consistent with and perhaps derived from academic theories and philosophies. Academics have theorised about how academic theories influence practice (see Sturdy, 2004 for a review) as well as lamenting about the apparent gap between research and practice (Baldridge et al., 2004 and Tushman et al., 2007). Keynes (1936, p.383) argued that "Madmen [sic] in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back." He believed that the ideas of economists and philosophers have a greater influence on those in practice than the motive of self-interest. Barley et al.'s (1988) research challenges this idea as it found that academics altered their research to match practice, rather than practitioners[2] altering their decisions to match theory. However, academic research has certainly influenced practitioners (Sturdy, 2004); for example, Porter's (1980; 1985) competitive strategy and Jensen and Meckling's (1976) agency theory have been highly influential in the academy and practice.

In light of recent corporate scandals in the US (e.g. Enron and Worldcom) and elsewhere (e.g. HIH in Australia, Parmalat in Europe), academics have questioned whether academic theories and philosophies have been a positive or negative influence on business and society (Englander and

[2] The term "practitioner" is used rather loosely here. It incorporates everyone who are not academics, e.g. policymakers, investors, directors, executives, etc.

Kaufman, 2003; Ghoshal, 2005; Osterloh and Frey, 2003; Frey and Osterloh, 2005). Ghoshal (2005, p.75) argues "Many of the worst excesses of recent management practices have their roots in a set of ideas that have emerged from business school academics over the last 30 years." He is particularly critical of liberalism and agency theory. Further, there is growing concern than agency theory may be self-fulfilling in practice (Arce, 2007; Cohen and Holder-Webb, 2006; Ferraro et al, 2005; Cassidy, 2002; Madrick, 2003). That is, by acting on the assumption that individuals are self-interested, boards of directors may alter the behaviour of executives as the use of incentives may crowd-out executives' sense of duty and crowd-in their sense of self-interest (Miller, 1999; Frey and Jegen, 2001).

Certainly, academics are engaged in training students who are/become practitioners and disseminating their research amongst other academics and practitioners. However, academics are also influenced by practice. Inductive methods rely on drawing theories from observation. Further, some academics were/are practitioners and vice-versa. This research does not assert that all theories of executive remuneration were formulated independently of practice, or that the remuneration logics contained within regulations and annual reports were exclusively drawn from academic theories. Drawing on institutional theory (Scott, 2008), this research proposes that the dissemination of academic theories and philosophies through discourse (e.g. education and publication) create normative pressures amongst practitioners. But these normative pressures may not be harmonious as academics may be disseminating competing theories (e.g. agency theory vs. stewardship theory, see Davis, et al. 1997). The following discussion tentatively relates the remuneration logics (examined in this research) to a variety of academic theories and philosophies.

The *human resources logic* (Zajac and Westphal, 1995; or *corporate logic*, Zajac and Westphal, 2004) argues that the level and form of executive remuneration must be sufficient to attract and retain high calibre managerial talent. This logic is consistent with a number of theories. Human capital theory asserts that the skill level of employees determines their remuneration (Becker, 1964). That is, offering above average pay will attract above average executives, assuming that the skill level of executives is observable. Similarly, managerialist theory (Chandler, 1962) and resource dependency theory (Pfeffer and Salancik, 1978) assert that executives are a scare and valuable resource which have unique knowledge and expertise, and it is necessary to pay executives to retain their skills. While stewardship theory (Donaldson and Davis, 1991) also argues that executives are a resource to be retained, it contends that individuals are motivated by both extrinsic (e.g. money) and intrinsic rewards (Davis et al., 1997). However, the literature on the *human resources logic* is predominately concerned with extrinsic rewards (e.g. money). Thus, financial economists do believe that individuals motivated by money are also self-interested (Jensen et al, 2004).

Consistent with agency theory (Jensen and Meckling, 1976; Jensen, 1983), the *agency logic* is concerned with how to manipulate the self-interest of executives and align their interests with those of the shareholders. As shareholders cannot contract ex-ante for all eventualities and monitor executives without incurring considerable cost, incentives (e.g. share options) are believed to be the most efficient form of control over executives. As mentioned above, this may lead to a self-fulfilling prophecy as in the absence of incentives executives may not act self-interestedly (Miller, 1999; Ghoshal, 2005). The *agency logic* presents a caricature of the behaviour of individuals. It does not account for other motives such as sentiment, duty and excellence (Rocha and Ghoshal, 2006). Following the *agency logic* can lead executives to maximise short-term profit, rather than long-term shareholder value, as well as to ignore the interests of stakeholders[3]. To overcome these problems, Jensen et al. (2004) argues that incentives should be designed so that executives consider stakeholders as the means to the end of shareholder value; that is, enlightened self-interest. However, the *agency logic* (as it is presented in practice) is silent on these issues and implicitly endorses narrow self-interest (e.g. short-termism).

The *pay-for-performance, contribution and achievement logics* are performance logics (Wade et al., 1997). They assert that executive remuneration schemes should link remuneration to performance. The *pay-for-performance logic* has its roots in scientific management (Taylor, 1911), which advocates that employees be rewarded for improvements in productivity. For executives, a variable pay philosophy means being rewarded for improvements in shareholder value (Anthony and Govindarajan, 1992). Individualism or meritocracy (Young, 1958) is the underlying assumption; that is, an executive can influence firm performance. Similarly, the central proposition of the theory of the firm (Coase, 1937) is that “managers of an enterprise guide its activities in such a way as to maximize the monetary well-being of its owners” (Lewellen and Huntsman, 1970, p.710). This assumption is embodied in the *contribution logic*; that is, individuals should be rewarded for their contribution to firm performance. Also, the *achievement logic* emphasises the need to reward the achievement of specific performance objectives (e.g. strategic and financial). This echoes Locke’s (1967) goal-setting theory; that is, individuals find setting and having goals to be motivational. But as Bonner and Sprinkle (2002) point out, goals are most effective when linked to rewards.

[3] While the term “stakeholders” normally includes shareholders, here they are treated as a separate group. Thus, stakeholders include employees, communities, customers, government, etc.

The *market logic* asserts that there is a managerial labour market and market forces (of supply and demand) determine the level and form of remuneration in this market; that is, executives must be paid competitively. This logic is consistent with market theory (Smith, 1776; Milgrom and Roberts, 1992) as St-Onge et al. (2001, p.258) explains "The labor market is composed of firms and employees with no one having undue influence… All positions are open and filled in a competitive manner… Market forces determine compensation levels." However, the managerial labour market may not be as efficient and effective as the *market logic* contends. Bebchuk and Fried (2003; 2006) argue that executives have captured the remuneration committees of companies. Khurana (2002; and Pick, 2005) argues that boards of directors do not act rationally when they hire new CEOs. Interlocking directorships mean that remuneration committees are unlikely to penalise CEOs without risking penalising themselves (Davis et al., 2003). Essentially, the invisible hand of the managerial labour market is really translucent and somewhat under the influence of CEOs.

The *fairness and appropriate logics* are seemingly similar as remuneration that is fair is also appropriate, but this is an over-simplification. The *fairness logic* is concerned with executive remuneration being fair, equitable, reasonable and not excessive. Consistent with equity theory (Adams, 1965), it contends that the distribution of remuneration among employees should be equitable. However, the evidence shows that the remuneration of CEOs is many times greater than employees (Mishel et al., 2007). Conversely, the *appropriate logic* argues that executive remuneration should be contingent on the firm's circumstances and the level of the executive's responsibility. This logic is consistent with contingency theory (Gomez-Mejia and Balkin, 1992; Barkema and Gomez-Mejia, 1998) and the managerial discretion hypothesis (Hambrick and Finkelstein, 1987). Thus, the *fairness and appropriate logics* are quite different.

Embodied in the *motivation logic* is the underlying assumption in most of the aforementioned logics that money motivates individuals to maximise their effort. Money is an effective motivator when short-term productivity is the goal (e.g. fruit picking). However, as expectancy theory explains, there are many factors that influence the effort of individuals (Vroom, 1964; Porter and Lawler, 1968). In determining how much effort to exert, individuals judge whether increased effort will lead to increased performance, whether increased performance will lead to increased rewards and the desirability of the rewards offered (see Bonner and Sprinkle, 2002 for a review). The *motivation logic* presents a caricature of human behaviour. Individuals respond differently to the same incentives due to personalities and circumstances, and rate money as a motivator differently (see Furnham, 2005 for a review). Notably, executives tend to be well above the average in terms of wealth, which mitigates the effect of monetary incentives (Furnham, 2005).

The *consultant logic* suggests that external remuneration consultants should advise boards of directors (or remuneration committees) on the CEO remuneration packages in order to ensure objectivity. Since the Enron and Arthur Andersen scandal, corporate governance reforms have emphasised the need to have independent directors (Cosenza, 2007). Independent remuneration consultants are also advocated (Crystal, 1991). Agency theory also argues that remuneration consultants should be independent so that the remuneration committee's decisions are impartial (Eisenhardt, 1989). Legitimacy theory asserts that external verification of executive remuneration practices confers legitimacy on boards of directors (Wade et al., 1997). However, Crystal (1991) highlights that remuneration consultants are often hired by the CEO, or when hired by the board of directors, remuneration consultants will give favourable reviews of the CEO so that their consultancy firm is hired by the CEO to advice on remuneration for the whole company.

These remuneration logics are normative statements about how boards of directors should remunerate their executives. This leads to conflicts or inconsistencies when multiple remuneration logics are employed. For example, a CEO of a firm experiencing declining performance according to the *pay-for-performance logic* will receive declining pay, but the *market logic* may dictate that the CEO could earn more elsewhere so their pay should not decline and the *human resources logic* argues that a highly skilled CEO should be retained and compensated accordingly. Indeed, CEO pay is more highly related to firm size than firm performance (Becht et al., 2007; Jensen et al., 2004; Murphy, 1999). There is also a conflict between the *fairness logic* and the other logics. For example, the *fairness logic* conflicts with the *agency logic* as it asserts that only executives and shareholders interests need to be aligned because employees are viewed as a resource to be exploited; the alternative view is stakeholder theory (Alam, 2006; Smith, 2003). It may be that the users of these remuneration logics (e.g. executives) are not concerned with potential inconsistencies because the remuneration logics are used as a discursive device to confer legitimacy, rather than a reflection of the users' personal believes (Wade et al., 1997).

The next section discusses how these remuneration logics may become institutionalised.

3.0 Institutionalisation: Crisis, Regulation and Reporting

Drawing on new institutional sociology, DiMaggio and Powell (1983) argue that institutional isomorphism in the form of normative, coercive and mimetic pressures influence organisations to change (see diagram 1). These pressures steer organisations towards common ideologies and adaptations. So as organisations change become they increasingly similar (Moll et al., 2006; Scott, 2008). Normative pressures are shared beliefs, values or expectations and are often shaped by academia, professions and consultants. For example, Ghoshal (2005) argues that business schools' advocacy and teaching of liberalism (e.g. agency theory) has lead to firms to widely adopt share options schemes. Coercive pressures are rules or laws and are often shaped by governments and their proxies (e.g. the UK's Financial Reporting Council). For example, Aguilera and Cuervo-Cazurra (2004) found that stock exchanges and governments have issued a number of corporate governance codes of best practice in the 1990s. Mimetic pressures are organisational adaptations that become widely used and are often shaped by organisations sharing knowledge (e.g. employees moving between firms) and making comparisons with other organisations (e.g. benchmarking; industry standards). For example, the organisational adaptations (e.g. total quality management) of financially successful companies are often copied by financially unsuccessful companies in order to improve financial performance (Heugens and Lander, 2007).

--- Insert Diagram 1 here ---

Normative, coercive and mimetic pressures are also subject to change. Institutions which shape these pressures are influenced by other institutions and organisations. Bringing about institutional isomorphism necessitates that one pressure dominates the other pressures or there is harmony between the pressures. For example, shareholder value maximisation is the dominant corporate objective, particularly in US companies despite the advocacy by many academics of stakeholder value maximisation (Smith, 2003; Jensen et al., 2004). Shareholder value maximisation cannot be deinstitutionalised while there is still much academic debate on which of shareholder theory and stakeholder theory is best (see Sundaram and Inkpen, 2004; Freeman et al., 2004).

Greenwood et al. (2002) described the stages of institutional change. Firstly, destabilising institutionalised practices requires "precipitating jolts", which are events such as social upheaval, technological disruptions or regulatory change. Secondly, "deinstitutionalisation" occurs when new or existing actors "introduce new ideas and thus the possibility of change" (p.60). Thirdly, "pre-institutionalisation" occurs when "organisations innovate independently" (p.60) and this transforms new ideas into viable new practices. Fourthly, "theorization" about the new practices is required to pick a winner among the new practices. Actors theorise about what were the causes of organisational failure, how the new practices may overcome these causes and how the best of the new practices is morally or pragmatically superior to the others. Fifthly, "diffusion" of new best practice occurs as actors accept the theorised justifications and begin to objectify the new best practice. Sixthly, "re-institutionalisation" occurs when the new best practice becomes taken-forgranted and gains cognitive legitimacy, although some new best practices become fads and fashions and thus not fully institutionalised.

This research is concerned with discursive practices (i.e. the remuneration logics), rather than technical practices (e.g. total quality management). Phillips et al.'s (2004) discursive model of institutionalisation complements Greenwood et al.'s (2002) stages of institutional change. Phillips et al. (2004) note that institutions change through discourse as technical practices are embedded in discourse. As discourse is socially constructed from texts, they argue that new texts can alter discourse and changes in discourse lead to changes in institutions. Further, precipitating jolts can lead to the production of new texts which either defend the legitimacy of existing practice or advocate institutional change. For texts to become part of an organisational field's discourse, the text must be fit with the other texts that constitute the discourse and must be diffused amongst a key group of actors.

The discourse of executive remuneration is embodied in regulations and companies' annual reports (i.e. texts). This research investigates how this discourse has changed over time. Aguilera and Cuervo-Cazurra (2004) and Enrione et al. (2006) found that precipitating jolts (e.g. financial crises or corporate scandals) lead to the production of new regulations. It is proposed that the new regulations will become part of the discourse if they are consistent with existing regulations. This will lead to greater coercive pressure on companies to conform to the recommendations of the regulations. However, companies may attempt to manage this coercive pressure by manipulating it or strategic managing their disclosure behaviour. To manipulate the coercive pressure, companies and their representatives may lobby the issuers of the regulations or they may be the issuers. To strategically manage the coercive pressure, companies may either symbolically or substantively comply with the regulations.

4.0 Method

This research investigates how remuneration logics are used to explain or justify executive remuneration practices in regulations and companies' annual reports. Drawing on institutional theory, the influence of the coercive pressure of regulation on companies' annual reports is examined. Drawing on legitimacy theory, the ability of companies and their actors (e.g. directors and executives) to manage this coercive pressure and their companies' legitimacy is also examined. Enrione et al. (2006) found that financial crises lead to new regulations, but they did not study how these regulations influenced companies' disclosure behaviour. This research examines how the changes in regulations in Australia, New Zealand and the UK influence the disclosure behaviour of each of their largest 50 listed companies. The changes in regulations pertaining to executive remuneration are examined from 1991 to 2008. The contents of the companies' annual reports in 1998 and 2007 are also examined. The focus of this research is the Chief Executive Officer (CEO) and the remuneration logics used to explain their remuneration. Content analysis is used to determine which remuneration logics are used, when they are used and how often.

4.1 The Sample

Initially all regulations related to corporate governance from New Zealand, Australia and the UK were identified and obtained. Textbooks (e.g. Du Plessis et al., 2005; Farrar, 2001; Mallin, 2007; Solomon, 2007) and websites (e.g. the European Corporate Governance Institute's, http://www.ecgi.org/codes/all_codes.php) helped identify the relevant regulations. If available, electronic copies (e.g. pdf) of the regulations were obtained so that the texts could be easily searched. Hard copies of some regulations were also obtained. 98 texts were gathered and scrutinised. Texts were discarded if they were not related to executive remuneration (e.g. the Smith report (2003) on audit committees), except New Zealand's listing rules (issued in 1994, 1999 and 2003). These texts were included because the lack of guidance on executive remuneration in New Zealand is a significant finding and is highlighted by the New Zealand Stock Exchange's silence on the matter. In the end, 39 texts are included in the sample and these were issued between 1991 and 2008 (see table 2).

--- Insert Table 2 here ---

The sample of companies is not random. It includes the 50 largest companies in terms of market capitalisation that were listed on Australian Stock Exchange (ASX), New Zealand Stock Exchange (NZX) and the London Stock Exchange (FTSE) on 31 December 1998 and 2007. Market capitalisation information was obtained from newspapers (The Times, London; The Australian; National Business Review, New Zealand) and the websites of the stock exchanges. The largest 50 companies were selected because they are the most likely to disclose information about their executive remuneration policies and practices. As legitimacy theory contends, companies that are heavily publically scrutinised will use disclosure (e.g. in annual reports) to defend or legitimise their decisions (Ashforth and Gibbs, 1990; Deegan, 2006). And the largest companies are publically scrutinised more heavily, particularly their CEO pay, than the smallest companies (Ogden and Watson, 2008).

The annual reports for the 50 largest companies across three counties and two time periods were gathered. Electronic or hard copies were obtained from the companies' websites, Global Reports (www.global-reports.com), NZX Deep Archive Service and University libraries (including University of Canterbury, University of Sydney and Strathclyde University). As the 1998 and 2007 lists of companies are quite different and to allow intra-company comparisons, the 1998 annual reports of the companies on the 2007 list were also gathered[4]. Thus, there are two samples (see table 3): firstly, the 'Top50' sample included 297 annuals reports (only 3 are missing); secondly, the 'Continuous' sample included 293 annual reports (only 2 are missing). There are more companies on the 1998 continuous list than the 2007 continuous list because many companies merged in between periods and all of the pre-merger companies are included on the 1998 continuous list. For example, Astra AB (Sweden) merged with Zeneca Plc (UK) in 1999 to form AstraZeneca.

--- Insert Table 3 here ---

4.2 The Data

Descriptive data on the sampled companies were gathered from online sources (e.g. stock exchange websites) and their annual reports. The descriptive data included industry classification, location of the companies' headquarters and countries in which in the companies are listed, as well as market capitalisation, revenue, net profit after tax, total assets (opening and closing), net assets (opening and closing), dividend per share, return on assets (net profit after tax / average total assets), return on equity (net profit after tax / average equity) and debt-to-equity (total closing debt / total closing equity). The three stock exchanges used different industry classification schemes. These schemes were cross-coded against The Times' industry classification scheme, and the data for the companies' industry classification were recoded accordingly. Other descriptive data, such as share price and board characteristics, were excluded from the sample due to time and cost constraints.

Data on the companies' executive remuneration practices were also excluded from the sample. The pilot study revealed that the CEOs of the largest companies in Australia, New Zealand and the UK have similar remuneration packages. Typically, the CEO's remuneration package includes a salary, an annual (cash) bonus, share options and shares. The incentives are usually contingent upon strategic, financial and market performance objectives. However, the exact details of these performance measures are not always disclosed due to their commercially sensitive nature, particularly in New Zealand companies' annual reports. Between 1998 and 2007, there did not

[4] The lists of companies included in the sample are available upon request from the author.

appear to be much change in executive remuneration practices, although there was shift from share options to alternative equity based schemes (see Hall and Murphy, 2003). Since there would have most likely been limited variation between companies and over time in the executive remuneration practices employed, there would be no significant correlation with the remuneration logics employed. While some remuneration logics should be correlated with some executive remuneration practices (e.g. the *agency logic* and share options), this research does not examine how companies' justify the adoption of executive remuneration practices (see Zajac and Westphal, 1995; Wade et al., 1997). Instead, this research is concerned with how the use of remuneration logics has changed over time, particularly in response to financial crises and new regulations.

The pilot study revealed 10 prominent remuneration logics. Content analysis was used to detect the presence or absence of these remuneration logics in the regulations and companies' annual reports (see Bryman and Bell, 2003, Chapter 9). Each of the remuneration logics were coded 1 (present) or 0 (absent) for each of the texts included in the sample. A coding instructions document was produced to ensure that the content analysis was reliable and repeatable. The instructions included definitions, examples and keywords associated with the remuneration logics (see tables 1 and 4).

--- Insert Table 4 here ---

The remuneration logics within the regulations and companies' annual reports were not always easily identified. Often significant portions of the texts had to be read and re-read, although electronic keyword searches increased the speed and accuracy of the process. In the companies' annual reports, the remuneration policies were usually located in the corporate governance statement, directors' report, or notes to the financial statements, but were occasionally located in other sections. When phrases related to the CEO and their remuneration were identified the phrases were scrutinised in order to determine whether or not the phrases embodied one or more remuneration logics. The coding instructions provided clear guidelines for coding these phrases as either present or absent. The data were recorded on coding sheets. To be coded as present, phrases needed to be related to one or more remuneration logics and related to the CEO. It was critical to determining the role of the CEO as some are the managing director and others are the chief executive. Further, some phrases (e.g. in the companies' remuneration policies) did not apply to the CEO but applied to, for example, non-executive directors or employees. Keyword searches revealed many different uses of the keywords (see table 4) which were not consistent with the corresponding remuneration logic. The phrases within the text were only coded as present if they were consistent with the remuneration logics.

All of the coding of the regulations and companies' annual reports was carried out by the author. To ensure that the coding was reliable and repeatable, the author recoded a sample of 4 regulations and 10 annual reports. Only a few errors were detected. The recoded data were almost identical to the original data. Further, two research assistants were employed to analyse the contents of 10 annual reports. The research assistants were post-graduate students. They were given an hour briefing on the coding process as well as the coding instructions to read after the briefing. Before they began coding, the author met with the research assistants to ensure that they understood the idiosyncrasies of the coding process. The coding sheets of the research assistants were compared with the author's coding sheets, and there was a high degree of similarity. However, one of the research assistants coded the *agency logic* as present many more times than the other two coders. A meeting with the research assistant revealed that she had misinterpreted the coding instructions. After this research assistant revised the coding of the *agency logic*, the three coders' data were almost identical.

4.3 Data Analysis

This research focused on identifying trends in the use of remuneration logics in regulations and companies' annual reports. The data were stored, sorted and analysed using Microsoft Excel™ and SPSS™. The analysis of the data was simplistic. The average and standard deviations were calculated for all of the variables. For the companies, differences between the groups (e.g. 1998 vs. 2007; listed in one vs. multiple countries; high vs. low users of remuneration logics) were tested and significance levels were scrutinised. Also, correlations between remuneration logics and the other variables were calculated and significance levels were scrutinised. Further, regression analyses between the remuneration logics (dependent variables) and the other variables such as return on assets (independent variables) were calculated and significance levels were scrutinised. However, much of data analysis yielded statistically insignificant results (e.g. the regression analyses) and these results are not included in the findings. Comparing the average use of remuneration logics in regulations and companies' annual reports between countries yields the most interesting and significant findings.

4.4 Limitations

There are three significant limitations of the method employed. Firstly, the time period studied for companies is limited by the availability of their annual reports. Companies' websites and the Global Reports database do not include many annual reports prior to 1998. Also, the cost of obtaining photocopies of annual reports from overseas universities is prohibitively expensive.

Future research could expand the time period under study to include companies' annual reports prior to early regulations such as the Bosch (1991) and Cadbury (1992) reports. Secondly, the sample was truncated as only the largest 50 companies were included. This non-random sample limits the analysis. It is assumed that firm size is related to disclosure behaviour, but this cannot be proved without expanding the sample. Thirdly, the number of variables studied is limited. The antecedents of remuneration logics require further investigation.

5.0 Findings

The findings are presented below. The descriptive statistics highlight the differences between the largest 50 companies in Australia, New Zealand and the UK. While there are significant size differences, the companies' performance across the three countries is comparable. The issuers of regulations and their motivation to issue new regulations are described. Consistent with other studies (e.g. Enrione et al., 2006) corporate scandals are the main motivator for creating new regulation. The content analysis of the regulations and annual reports reveals that the remuneration logics are used extensively in Australia and the UK, but not in New Zealand. Correlation analyses are presented on the relationships between the remuneration logics, and the relationships between remuneration logics and the financials of the companies. Also, differences between companies listed in one country and multiple countries are examined. These analyses highlight the influence of regulation and firm size on the use of remuneration logics.

5.1 Descriptive Statistics

The sampled companies operate in a wide variety of industries (see table 5). The banking and finance industry in all three countries contains the highest number of companies. The industry classification data reflects the idiosyncrasies of the three countries. However, there are few statistically significant correlations between industries and remuneration logics[5].

--- Insert Table 5 here ---

The majority of the largest 50 companies listed on the ASX, NZX and FTSE in both 1998 and 2007 also have their headquarters in that country (see table 6). It is also common for the largest 50 companies to be listed on multiple stock exchanges (see table 7). While there are many dual listings of companies on the ASX and NZX, Australian companies are more likely to be in the NZX Top50 than New Zealand companies are to be in the ASX Top50. Many Australian and New Zealand

---

[5] The results of this analysis are not reported here.

companies are also listed on overseas stock exchanges, but few are large enough to be in the FTSE Top50. The Top50 on each stock exchange and in each time period can be divided into two groups fairly evenly: Companies listed on one stock exchange and companies listed on multiple stock exchanges, although UK companies have shifted towards multiple listings by 2007. It is likely that there are significant differences between these two groups as companies listed on multiple exchanges will face more regulatory and investor scrutiny than those listed on one exchange. The differences between these two groups are analysed later.

--- Insert Table 6 here ---

--- Insert Table 7 here ---

The financial statistics highlight while New Zealand's largest companies are much smaller than Australia's largest companies, both of these countries' largest companies are much smaller than the UK's largest companies (see table 8). The financial statistics are presented in the local currency, but the New Zealand dollar has the least value and the UK pound has the most value in both 1998 and 2007, which reinforces the size difference. The performance of Australia's, New Zealand's and the UK's largest companies is comparable, although the UK's largest companies are more highly leveraged than Australia's and New Zealand's which also distorts their return on equity. The performance of all companies in 2007 is much higher than in 1998, perhaps reflecting the effects of the Asian economic crisis (1997-1998) and the recent global economic boom (2002-2007). The relationship between the financial statistics and remuneration logics are discussed later.

--- Insert Table 8 here ---

5.2 The Issuers of Regulations and Their Motivation to Issue Regulation

Australian institutions have produced at least 18 regulations on executive remuneration between 1991 and 2007 (see table 9a and 9b). Du Plessis et al. (2005) suggests that the early regulations, the Bosch (1991, 1993 and 1995) and Hilmer (1993 and 1998) reports, have been largely forgotten and overshadowed by subsequent developments. The Bosch reports were produced by collaboration between many institutions, whereas the Hilmer reports were produced by the Sydney Institute (a privately funded think tank). These reports were produced in response to "the excesses of the 1980s", court decisions and overseas developments in corporate governance (e.g. Cadbury, 1992).

The Investment and Financial Services Association (IFSA, formerly AIMA) and the Australian Institute of Company Directors (AICD) have both periodically produced many reports on executive remuneration, usually in the form of corporate governance codes of best practice. These reports were motivated by a range of factors, particularly high profile corporate collapses and changes in Australia's corporate law. Similarly, the Horwath (2002) report and Corporate Law Economic Reform Program (CLERP) Act (2004) were motivated by high profile corporate collapses. These include HIH, Harris Scarfe, Ansett and OneTel (see Du Plessis et al., 2005).

The issuers most involved in producing regulations are the professional associations (22%), the directors' association (15%), the fund managers' association (12%), the financial services association (12%), and the stock exchange (10%). However, the involvement of these issuers has been somewhat sporadic between 1991 and 2007. More recently, the stock exchange, the directors' association and investors' association have produced the most regulations. Given that corporate collapses are the most cited reason for producing regulations and that issuers are also related to the corporate collapses (e.g. directors), the issuers are acting to defend their legitimacy.

--- Insert Table 9a here ---

--- Insert Table 9b here ---

New Zealand institutions have not produced many regulations on executive remuneration and are typically produced by one issuer (see table 10). Table 10 overstates the number of regulations as the NZX's (formerly, NZSE) three editions of listing rules do not include any recommendations of substance regarding executives' remuneration. Except for the 2004 edition which states that "2.6 Every Issuer should have a formal and transparent method to recommend Director remuneration packages to shareholders. [And] 2.7 Directors are encouraged to take a portion of their remuneration under a performance-based Equity Security compensation plan…" Further, the two reports of the NZ Securities Commission are part of the same report. Thus, New Zealand institutions only produced 7 regulations on executive remuneration between 1991 and 2007.

The New Zealand Institute of Chartered Accountants (NZICA) reports and the NZ Securities Commission report were motivated by the financial crisis of 2000-2002, particularly the Enron and Arthur Anderson debacle. NZICA was most certainly defending its legitimacy in its reports. For example, NZICA (2003a, p.1) stated that "The working group did not find any evidence of systematic reporting failure in New Zealand. Nor did time working group consider reporting failure of the magnitude found in the United States likely in New Zealand at this time." These reports were part of NZICA's strategy to reassure the public that the New Zealand companies were not affected by the financial crisis. But New Zealand has not been immune to corporate governance problems.

For example, the partial re-nationalisation of Air New Zealand in 2001; the profit warnings of Vertex in 2002; the receivership of Feltex in 2006; the collapse of many finance companies in 2006, 2007 and 2008 (Stock, 2008).

--- Insert Table 10 here ---

UK institutions produced many regulations between 1991 and 2008, but only 9 are concerned with executive remuneration (see table 11). The early reports were motivated by corporate scandals and the perception that directors were overpaid, whereas the later reports were part of a periodic review process. The stock exchange (16%) and stock exchange regulator (26%) as well as professional associations have been involved in producing the majority of regulations. The Confederation of British Industry (CBI), a business association, has also been involved with two significant reports, Greenbury (1995) and Hampel (1998) which lead to the Combined Code. The Combined Code is significant as listed companies must comply with it or explain why they do not comply. It uses many of the remuneration logics. The CBI represents 200,000 British companies including 80% of the FTSE100 companies (www.cbi.org.uk). Thus, UK companies are self-governed in the sense that many of their directors have served on the committees which produced the regulations on executive remuneration.

--- Insert Table 11 here ---

The most common issuer of regulations in Australia, New Zealand and the UK are professional associations, which are predominately institutes of chartered accountants. Directors, executives and business associations have also been common issuers. Stock exchanges and their regulators have been common issuers in the UK, but not Australia and New Zealand. Further the majority of these regulations have been produced in response to both local and international corporate scandals. The issuers are defending their legitimacy by issuing regulations and manipulating the isomorphic pressures by setting the regulations which they must adhere to.

5.3 The Use of Remuneration Logics in Regulations and Annual Reports

Australia's Corporations Act 2001 and the UK's Directors' Remuneration Report Regulations 2002 both require companies to include a remuneration report in their annual report which explains their remuneration policies. However, the remuneration logics are almost absent from these regulations. Instead, the remuneration logics are found in the ASX's Principles of Good Corporate Governance and Best Practice Recommendations (2003 and 2007) and the Financial Reporting Council's (FRC)

The Combined Code on Corporate Governance (1998, 2003, 2006 and 2008). For example, both codes include the *fairness logic* (ASX, 2007, p.35: "Remunerate fairly and responsibly"; FRC, 2006, p.21, "The total rewards potentially available should not be excessive."). However, both codes do not mandate that the remuneration logics within the codes must be included in companies' remuneration reports and both codes do not prescribe how these principles (in the form of remuneration logics) should be implemented in practice. Both countries have adopted a principles-based or a 'comply or explain' approach; that is, companies are free to design and explain their executive remuneration practices as they see fit, but they must disclose their executive remuneration policies and practices. New Zealand regulations are almost nonexistent in comparison to Australia and the UK.

Given the different regulatory environments in Australia, New Zealand and the UK, the use of remuneration logics in regulations is not surprising (see chart 1). In the UK, the Cadbury (1992) report contains 4 remuneration logics, the Greenbury (1995) report contains 9 and the Combined Code (1998) contains 7. All of the regulations in the UK contain multiple remuneration logics and there is an upward trend in the use of remuneration logics between 1991 and 2008. In Australia, the Bosch (1991; 1993; 1995) and Hilmer reports (1993; 1998) averaged 2.2 remuneration logics, whereas the regulations produced by AICD, IFSA and ASX between 2000 and 2007 averaged 7.1 remuneration logics. The upward trend in the use of remuneration logics is more pronounced in Australia than in the UK. In New Zealand, the NZICA (2002; 2003a; 2003b) reports averaged 2.3 remuneration logics, the Securities Commission (2004) report included 6, and the NZ Shareholders' Association (2004) web-article included 4, and the Institute of Directors' (2005) code included 7. While chart 1 shows an upward trend in the use of remuneration logics for New Zealand, regulations in New Zealand did not include any remuneration logics until 2002.

--- Insert Chart 1 here ---

The same trends in the use of remuneration logics in regulations are found in the largest 50 companies' annual reports in Australia, New Zealand and the UK (see chart 2). Companies' annual reports contained on average the following remuneration logics: in the UK, 6.5 in 1998 and 8.2 in 2007; in Australia, 3.4 in 1998 and 8.7 in 2007; and in New Zealand, 0.9 in 1998 and 3.6 in 2007. Companies in all three countries experienced an upward trend in the average use of remuneration logics, particularly Australia. New Zealand lags behind Australia and the UK in the use of remuneration logics in both regulations and annual reports. In 1998, there is a clear gap between Australia and the UK, but in 2007, Australia and the UK are at comparable levels. However, whether the increased volume of disclosure has had any other benefits (e.g. increased stock market efficiency) is indeterminable.

--- Insert Chart 2 here ---

Each of the remuneration logics has increased in usage between 1998 and 2007 in both regulations and annual reports in all three countries (see table 12). Once a remuneration logic is included in a regulation or an annual report, subsequent editions of the regulation or annual report also include the remuneration logic; that is, it was rare for an issuer or a company to stop using a remuneration logic once it was adopted. For the remuneration logics used in the largest 50 companies' annual reports, the most used are the *pay-for-performance*, *market* and *human resources logics*, whereas the least used are the *appropriate*, *contribution* and *fairness logics*. While the *fairness logic* is used extensively in the regulations of all three countries, it rates consistently as the least used remuneration logic in the companies' annual reports in all three countries. The results show that companies favour those logics which justify increasing remuneration; for example, the *market logic* implies that pay should be competitive and Jensen et al. (2004) points out that no one wants to have below average remuneration, so companies set their remuneration levels to be consistent with the upper quartile of comparable firms or increase the average by altering the comparator group.

--- Insert Table 12 here ---

The increase in the number of remuneration logics used per company is significant (see table 13). In Australia, in 1998 36% of companies used 0-2 remuneration logics and 6% used 8-10, whereas in 2007 0% used 0-2 and 80% used 8-10. In New Zealand, in 1998 81% of companies used 0-2 remuneration logics and 2% used 8-10, whereas in 2007 44% used 0-2 and 14% used 8-10. In the UK, in 1998 2% of companies used 0-2 remuneration logics and 29% used 8-10, whereas in 2007 2% used 0-2 and 72% used 8-10. The change in the use of remuneration logics between 1998 and 2007 is most pronounced amongst Australia companies with all companies using at least 6 remuneration logics. In 2007, UK companies had not adopted as many remuneration logics as Australian companies, but the two groups are not significantly different as only one UK company had less than 6 remuneration logics. The findings indicate that Australian and UK companies have responded to the financial crises and subsequent regulations by adopting the language of the regulations. After the Greenbury (1995) report was issued, a reporter for the Financial Times, Jim Kelly (1996, p.13) commented "Greenbury requires a statement of remuneration policy and E&Y found that the dreaded accountants' disease – known as "boilerplate" – had taken hold. Time and time again, companies' rewards policy was designed to "attract, retain and motivate", a phrase hijacked from the Greenbury report itself." The findings indicate that the "boilerplate" disease is a consequence of regulation. Variation in the executive remuneration policies of Australian and UK companies greatly diminished between 1998 and 2007.

--- Insert Table 13 here ---

Table 12 shows that the sample of Top50 and the sample of Continuous companies use the remuneration logics to the same extend; there are no statistically significant differences between these two groups. However, the sample of Continuous companies is eclectic as a result of mergers and acquisitions between 1998 and 2007. To determine whether stable companies change their remuneration policies, a sub-sample containing only those companies which were continuously listed and that do not make any major acquisitions between 1998 and 2007 was constructed. The differences in means between 1998 and 2007 are analysed (see table 14). The findings show that stable continuously listed companies in all three countries used the remuneration logics to the same degree as less stable companies.

--- Insert Table 14 here ---

5.4 The Relationships between the Remuneration Logics

Zajac and Westphal (1995) found that there was a negative correlation between the use of the *agency* and *human resources logics* in US companies from 1976 and 1990. This research analyses the correlations between the remuneration logics below.

The correlations between remuneration logics for Australian companies in 1998 and 2007 reveals few statistically significant results (see tables 15 and 16). A number of the correlations are incalculable because some of the remuneration logics are used by no companies (the *fairness logic* in 1998) or all companies (the *pay-for-performance* and *market logics*). The results indicate that no statistically significant relationships between the remuneration logics persist over time, except for the correlation between the *human resources* and the *consultant logics* (0.364** in 1998 and 0.393** in 2007; ** $p<0.01$). This result is consistent with Crystal's (1991) concerns that remuneration consultants are not independent, but favour the CEO. There are no statistically significant negative correlations.

--- Insert Table 15 here ---

--- Insert Table 16 here ---

The correlations between remuneration logics for New Zealand companies in 1998 and 2007 reveals many statistically significant results (see tables 17 and 18). Only the correlation between the *fairness logic* and the other remuneration logics in 1998 is incalculable as no companies use the *fairness logic*. 83% of the correlations in 1998 and 67% in 2007 are statistically significant, which is the most of the three countries. 63% of the correlations in 1998 persist in 2007. There are no negative correlations. Many of the correlations between the *fairness* logic and the other remuneration logics in 2007 are not statistically significant, except the *human resources* and *market logics*.

--- Insert Table 17 here ---

--- Insert Table 18 here ---

The correlations between remuneration logics for UK companies in 1998 and 2007 reveals very few statistically significant results (see tables 19 and 20). Only the correlation between the *market logic* and the other remuneration logics in 2007 is incalculable as all companies use the *market logic*. The results indicate that no statistically significant relationships between the remuneration logics persist over time. There are no statistically significant negative correlations.

--- Insert Table 19 here ---

--- Insert Table 20 here ---

The results from the correlations between remuneration logics highlight the difference between heavily regulated (Australia and the UK) and unregulated (New Zealand) countries. While regulations in Australia and the UK do not mandate that companies include the remuneration logics in their annual reports, the regulations may as well because the coercive pressure created by the regulations leads companies to adopt the remuneration logics. There are almost no statistically significant correlations between the remuneration logics amongst Australian and UK companies because the coercive (regulatory) pressure crowds-out any relationships that might have otherwise existed. Conversely, in the absence of regulation in New Zealand, there are many statistically significant relationships between remuneration logics and these generally persist over time. Amongst New Zealand companies, the relationships between the *human resources*, *contribution, achievement*, *market*, *appropriate* and *motivation logics* are the strongest and most persistent.

Perhaps, in an unregulated environment, these companies which adopt these remuneration logics are more efficient that those that do not (this is investigated further below).

5.5 The Relationships between Remuneration Logics and the Financials

The correlations between remuneration logics and the financials for Australian companies in 1998 and 2007 reveal few statistically significant results (see tables 21 and 22). Correlations between the *fairness logic* and the financials in 1998 are incalculable as no companies use the *fairness logic*. Also, correlations between the *pay-for-performance* and *market logics* and the financial in 2007 are incalculable as all companies use these remuneration logics. Only 14% of the correlations in 1998 and 6% of the correlations in 2007 are statistically significant. None of the statistically significant correlations persist over time. There are only two statistically significant negative correlations. The *consultant logic* is negatively correlated with both return on assets (-0.204 in 1998; -0.336* in 2007, $p<0.05$) and return on equity (-0.023 in 1998; -0.322* in 2007, $p<0.05$). Crystal (1991) argues that remuneration consultants work for the benefit of the CEO, rather than shareholders. These correlations support this premise as poor firm performance is related to using consultants to justify executive remuneration.

--- Insert Table 21 here ---

--- Insert Table 22 here ---

The correlations between remuneration logics and the financials for New Zealand companies in 1998 and 2007 reveals many statistically significant results (see tables 23 and 24). Correlations between the *fairness logic* and the financials in 1998 are incalculable as no companies use the *fairness logic*. 39% in 1998 and 71% in 2007 of the correlations are statistically significant, although 26% of the statistically significant correlations in 1998 have dissipated in 2007. The correlation between *net profit after tax* and the *agency logic* is negative in 1998 (-0.513***; $p<0.001$), but is positive in 2007 (0.454**; $p<0.01$); this result is yet to be explained. The *consultant logic* is negatively correlated with return on assets in 1998 (-0.310*; $p<0.05$), but this statistically significant correlation dissipates in 2007. The relationship between the remuneration logics and firm performance is weak. A firm size effect explains the statistically significant correlations. Larger companies are more likely to disclose their remuneration policies because they have more resources available to prepare the annual report and they are more visible in the public eye (i.e. they need to legitimise their executive remuneration practices).

--- Insert Table 23 here ---

--- Insert Table 24 here ---

The correlations between remuneration logic and the financials for the UK companies in 1998 and 2007 reveals very few statistically significant results (see tables 25 and 26). Correlations between the *market logic* and the financials in 2007 are incalculable as all companies use the *market logic*. 8% in 1998 and 6% in 2007 of the correlations are statistically significant. None of the statistically significant correlations in 1998 are also present in 2007. There are several statistically significant negative correlations. In 2007, the *consultant logic* is negatively correlated with return on assets (-0.312*, p<0.05).

--- Insert Table 25 here ---

--- Insert Table 26 here ---

The results indicate that regulations crowd out any relationships between the remuneration logics and the financials of the companies. Regulation creates a coercive pressure and Australian and UK companies have responded by adopting the remuneration logics. In New Zealand's relatively unregulated environment, there is a stronger relationship between the use of remuneration logics and the financials of the companies. However, in Australia in 1998 there was also relatively limited regulation, yet there was not a strong relationship between the use of remuneration logics and the financials of the companies. Alternatively, the results indicate a size threshold effect. That is, when companies reach a certain size (e.g. by market capitalisation), they become more visible in the public eye and need to legitimise their executive remuneration practices. In New Zealand, the size of the largest 50 companies varies much more than in Australia and the UK. Thus, the statistically significant results are highlighting the difference between the large and small companies in New Zealand.

5.6 The Differences between Companies Listed in One Country and Multiple Countries

To further examine the size threshold effect, the differences between countries listed in one country and multiple countries are analysed (see table 27). The results show that there are few statistically significant differences between Australian and UK companies that are listed on one or more stock exchanges, although in 2007 the Australian companies listed on multiple stock exchanges are somewhat larger than those listed on one. Further, the results show that New Zealand companies listed on multiple stock exchanges have statistically significantly higher average use of the remuneration logics (6 out of 10 in 1998; 8 out of 10 in 2007). This highlights the coercive pressure created by country-specific regulations.

--- Insert Table 27 here ---

6.0 Discussion

Enrione et al. (2006) found that corporate scandals were the precipitating jolts that lead to the adoption of new corporate governance codes. However, the newness of these regulations and their influence on disclosure behaviour was not studied. This research found that new regulations in Australia, New Zealand and the UK did not contain new remuneration logics. Instead, the language of the Cadbury (1992) and Greenbury (1995) reports are embedded in subsequent regulations. There have been many precipitating jolts throughout the 1990s and 2000s, but they have not lead to the creation of new ideas and practices. The effect of the financial crises has been to entrench the existing discourse of executive remuneration in regulations and companies' annual reports.

The discourse of executive remuneration has been scantly studied. Previous research has found that companies use remuneration logics to legitimise their executive remuneration practices (Zajac and Westphal, 1995; Wade et al., 1997). This research found that the discourse of executive remuneration used in regulations is also used in companies' annual reports. The main reason for the homogeneity is that the issuers of the regulations are professional, directors' and business associations, which have an interest in producing company-friendly regulations. Consistent with legitimacy theory, Australian, New Zealand and UK companies bolster their legitimacy by seemingly conforming to coercive pressure.

A "boilerplate" approach to executive remuneration policy has emerged. Companies' annual reports use a plethora of remuneration logics to justify their executive remuneration practices. These remuneration logics are seemingly unchallengeable; for example, investors are unlikely to question an executive remuneration policy that is designed to align the CEOs interest to those of the investors. The remuneration logics are rhetoric designed to convince shareholders and other stakeholders of the efficacy of companies' executive remuneration policies. The findings show that the "boilerplate" has been increasingly entrenched in companies' annual reports over time. The "boilerplate" of remuneration logics is bad for practice (Ghoshal, 2005) as it crowds out variation.

Interestingly, the *fairness logic* which is included in many of the regulations is the least used remuneration logic. The *fairness logic* is, however, inherently ambiguous as fairness is not defined. It is not clear whether fairness is concerned with comparisons, for example, between CEOs and employees, or other criteria.

7.0 Conclusion

This research studied the use of remuneration logics in regulations and companies' annual reports in Australia, New Zealand and the UK. The findings indicated that new regulations are produced in response to financial crises and corporate scandals. Further, the issuers of these regulations include stock exchanges, stock exchange regulators, professional associations, directors' associations, business associations, fund managers' associations and investors' associations. These regulations often include remuneration logics, which originated in the Cadbury (1992) and Greenbury (1995) reports. UK companies' annual reports in 1998 and 2007 include to high degree these remuneration logics. While Australian regulations have adopted these remuneration logics, they were not extensive used until the early 2000s. Consequently, Australian companies' annual reports in 1998 did not include many remuneration logics, whereas in 2007 they included the same amount of remuneration logics as their UK counterparts. The UK and Australian regulations require companies to disclose their executive remuneration policies and have adopted a 'comply or explain' approach to their corporate governance codes of best practice. And generally UK and Australian companies will comply and have adopted the language of executive remuneration contained within the regulations.

In contrast, there have been few New Zealand regulations until recently and these regulations have not included many of the remuneration logics. Consequently, New Zealand companies do not disclose much information about their executive remuneration policies, although the information that is disclosed does include the remuneration logics. The findings suggest that in the absence of regulation, there is a size threshold for the disclosure of executive remuneration policies. That is, in New Zealand there is a strong correlation between firm size and the use of the remuneration logics. Also, New Zealand companies which are listed in multiple countries tend to disclose more than those listed in New Zealand only.

The executive remuneration policies of Australian and UK companies have become increasingly homogenous over time. The findings are consistent with institutional isomorphism, particularly coercive pressures. Firstly, normative pressure transmitted the discourse of executive remuneration from academia to practice. This is evidenced by the high degree of similarity between the remuneration logics used in regulations and companies' annuals reports, and the academic theories and philosophies related to executive remuneration. Secondly, coercive pressure has compelled companies to adopt this discourse in their annual reports. This is evidenced by the leader-follower pattern as companies' disclosure in their annual reports has significantly increased after new regulations have been issued, but note that the regulations do not mandate that companies use the remuneration logics. Thirdly, mimetic pressure has reinforced this pattern in disclosure. This is evidenced by the time lag in companies adopting the remuneration logics. It takes several years after the regulations have been issued for the majority of companies to adopt the remuneration logics as some companies take a ‘wait and see’ approach.

The regulations do not mandate that companies use the remuneration logics, yet many companies in Australia, New Zealand and the UK do. The findings indicate that directors’ associations, business associations and (to a lesser extent) executives’ associations have had significant input into the production of the regulations on executive remuneration. Since these groups have had a degree of control over the regulation (i.e. the coercive pressure), it is not surprising that companies have adopted the language of the regulations. Thus companies have managed their legitimacy by quelling public anxiety about executive remuneration by complying with regulations and disclosing remuneration logics designed to convince the public (including shareholders) of the legitimacy of their executive remuneration practices.

Future research should investigate the companies’ use of remuneration logics in more depth. Firstly, the relationship between firm and board characteristics, executive remuneration practices, the use of remuneration logics and firm performance should be investigated. In order to determine whether the use of remuneration logics is associated with increased efficiency and whether firms decouple their executive remuneration policies from their executive remuneration practices. Secondly, archival analyses which trace the adoption of remuneration logics in academic publications, regulations, news media publications and companies’ annual reports will provide further evidence on how normative pressures develop and whether academia has significantly influenced the language of executive remuneration. Thirdly, interviews with executives, directors, investors and other institutional actors will provide evidence on whether the remuneration logics are entrenched in the beliefs of these actors. That is, are the remuneration logics confined to regulations and annual reports (symbolic meaning) or do these actors use the remuneration logics to justify their beliefs and decisions in practice (substance meaning).

References[6]

Adams, J. S. (1965). "Inequity in Social Exchange." Advances in Experimental Social Psychology **62**: 335-343.

[6] References for the regulations and companies’ annual reports included in this study are available upon request from the author.

Aguilera, R. V. and A. Cuervo-Cazurra (2004). "Codes of Good Governance Worldwide: What is the Trigger?" Organization Studies **25**(3): 415-443.

Alam, M. (2006). Stakeholder Theory. Methodological Issues in Accounting Research: Theories and Methods. Z. Hoque. London, Spiramus.

Anthony, R. N. and V. Govindarajan (1992). Management Control Systems. 7th edition. Boston, Irwin.

Arce, D. G. (2007). "Is Agency theory self-activating?" Economic Inquiry **45**(4): 708-720.

Ashforth, B. E. and B. W. Gibbs (1990). "The Double-Edge of Organizational Legitimation." Organization Science **1**(2): 177-194.

Baker, J. C. (1939). "Executive Compensation Payments by Large and Small Industrial Companies." Quarterly Journal of Economics **53**(3): 404-434.

Baldridge, D. C., S. W. Floyd and L. Markóczy (2004). "Are managers from Mars and academicians from venus? Toward an understanding of the relationship between academic quality and practical relevance." Strategic Management Journal **25**(11): 1063-1074.

Barkema, H. G. and L. R. Gomez-Mejia (1998). "Mangerial Compensation and Firm Performance: A General Research Framework." Academy of Management Journal **41**(2): 135-145.

Barley, S. R., G. W. Meyer and D. C. Gash (1988). "Cultures of Culture: Academics, Practitioners and the Pragmatics of Normative Control." Administrative Science Quarterly **33**(1): 24-60.

Bebchuk, L. A. and J. M. Fried (2003). "Executive Compensation as an Agency Problem." Journal of Economic Perspectives **17**(3): 71-92.

Bebchuk, L. A. and J. M. Fried (2006). "Pay without Performance: Overview of the issues." The Academy of Management Perspectives **20**(1): 5-24.

Becht, M., P. Bolton and A. Röell (2007). "Chapter 12: Corporate Law and Governance." Handbook of Law and Economics **2**: 829-943.

Becker, G. S. (1964). Human Capital: A theoretical and empirical analysis with special reference to education. New York, Columbia University Press.

Bender, R. (2007). "Onwards and Upwards: why companies change their executive remuneration schemes, and why this leads to increases in pay." Corporate Governance: An International Review **15**(5): 709-723.

Bonner, S. E. and G. B. Sprinkle (2002). "The effects of monetary incentives on effort and task performance: Theories, evidence, and a framework for research." Accounting, Organizations and Society **27**: 303-345.

Boyer, R. (2005). "From Shareholder Value to CEO Power: the Paradox of the 1990s." Competition & Change **9**(1): 7-47.

Bryman, A. and E. Bell (2003). Business Research Methods. Oxford, Oxford University Press.

Cassidy, J. (2002). "The Greed Cycle." The New Yorker. 23 September 2002. New York.

Coase, R. H. (1937). "The Nature of the Firm." Economica **4**(16): 386-405.

Cohen, J. R. and L. L. Holder-Webb (2006). "Rethinking the Influence of Agency Theory in the Accounting Academy." Issues in Accounting Education **21**(1): 17-30.

Cosenza, E. (2007). "The Holy Grail of Corporate Governance Reform: Independence or Democracy?" Brigham Young University Law Review **2007**(1): 1-54.

Crystal, G. S. (1991). In Search of Excess: The Overcompensation of American Executives. New York, Norton.

Davis, G. F., M. Yoo and W. E. Baker (2003). "The Small World of the American Corporate Elite, 1982-2001." Strategic Organization **1**(3): 301-326.

Davis, J. H., F. D. Schoorman and L. Donaldson (1997). "Toward a stewardship theory of management." The Academy of Management Review **22**(1): 20-47.

Deegan, C. (2006). Legitimacy Theory. Methodological Issues in Accounting Research: Theories and Method. Z. Hoque. London, Spiramus Press: 161-181.

DiMaggio, P. J. and W. W. Powell (1983). "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields." American Sociological Review **48**(2): 147-160.

Donaldson, L. and J. H. Davis (1991). "Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns." Australian Journal of Management **16**(1): 49-65.

Du Plessis, J. J., J. McConvill, and M. Bagaric (2005). Principles of Contemporary Corporate Governance. Cambridge, Cambridge University Press.

Eisenhardt, K. M. (1989). "Agency Theory: An Assessment And Review." The Academy of Management Review **14**(1): 57.

Englander, E. and A. Kaufman (2003). "Executive Compensation, Political Economy, and Managerial Control: The Transformation of Managerial Incentive Structures and Ideology, 1950-2000." George Washington University SMPP Working Paper **03-01**: 1-42.

Enrione, A., C. Mazza, et al. (2006). "Institutionalizing Codes of Governance." The American Behavioral Scientist **49**(7): 961.

Farrar, J. (2001). Corporate Governance in Australia and New Zealand. Oxford, Oxford University Press.

Ferraro, F., J. Pfeffer and R. I. Sutton (2005). "Economics Language and Assumptions: How Theories can become Self-Fulfilling." Academy of Management Review **30**(1): 8-24.

Fiss, P. C. (2007) "Institutions and Corporate Governance." Working Paper: 1-55. Available at SSRN: http://ssrn.com/abstract=1003303.

Fiss, P. C. and E. J. Zajac (2004). "The Diffusion of Ideas over Contested Terrain: The (Non)adoption of a Shareholder Value Orientation among German Firms." Administrative Science Quarterly: 501-534.

Frey, B. S. and R. Jegen (2001). "Motivation Crowding Theory." Journal of Economic Surveys **15**(5): 589-611.

Frey, B. S. and M. Osterloh (2005). "Yes, Managers Should Be Paid Like Bureaucrats." Journal of Management Inquiry **14**(1): 96-111.

Ghoshal, S. (2005). "Bad Management Theories Are Destroying Good Management Practices." Academy of Management Learning & Education **4**(1): 75-91.

Ghoshal, S. and P. Moran (1996). "Bad for Practice: A Critique of the Transaction Cost Theory." Academy of Management Review **21**(1): 13-47.

Gomez-Mejia, L. R. and D. B. Balkin (1992). "Compensation, organizational strategy, and firm performance. " Cincinnati, South-Western Publishing Company.

Greenwood, R., R. Suddaby, et al. (2002). "Theorizing Change: The Role of Professional Associations in the Transformation of Institutionalized Fields." Academy of Management Journal **45**(1): 58-80.

Hall, B. J. and K. J. Murphy (2003). "The Trouble with Stock Options." Journal of Economic Perspectives **17**(3): 49-70.

Hambrick, D. C. and S. Finkelstein (1987). "Managerial discretion: A bridge between polar views of organizations. " L. L. Cummings and B. M. Staw, Research in Organizational Behavior. **9**: 369-406. Greenwich, JAI Press.

Heugens, P. P. M. A. R. and M. W. Lander (2007) "Testing the Strength of the Iron Cage: A Meta-Analysis of Neo-Institutional Theory" Erasmus University Rotterdam Repository: 1-43. Available at: http://repub.eur.nl/publications/index/180797671.

Jensen, M. C. (1983). "Organization Theory and Methodology." The Accounting Review **58**(2): 319-339.

Jensen, M. C. and W. H. Meckling (1976). "Theory of the firm: Managerial behavior, agency costs and ownership structure." Journal of Financial Economics **3**: 305-360.

Jensen, M. C., K. J. Murphy and E. G. Wruck (2004). "Remuneration: Where We've Been, How We Got to Here, What are the Problems, and How to Fix Them." Harvard NOM Working Paper. 04-28: 1-116. Available at SSRN: http://ssrn.com/abstract=561305.

Kelly, J. (1996). "Too much of a good thing threatens to confuse." Financial Times. July 4 1996: 13. London.

Keynes, J. M. (1935). The General Theory of Employment, Interest and Money. 1997 reprint. New York, Prometheus Books.

Khurana, R. (2002). "The Curse of the Superstar CEO." Harvard Business Review **80**(9): 60-66.

Khurana, R. and K. Pick (2005). "The Social Nature of Boards." Brooklyn Law Review **70**(4): 1259-1285.

Larsen, P. (2004). Rhetorical Analysis. International Encyclopedia of the Social & Behavioral Sciences. N. J. Smelser and P. B. Baltes, Elsevier**:** 13323-13327.

Lewellen, W. G. and B. Huntsman (1970). "Managerial Pay and Corporate Performance (in Communications)." The American Economic Review **60**(4): 710-720.

Locke, Edwin A. (1968). "Toward a Theory of Task Motivation and Incentives." Organizational Behavior and Human Performance. **3**(2): 157-189.

Madrick, J. (2003). "Economic Sense." The New York Times. 20 February 2003: C2. New York.

Mallin, C. A. (2007). Corporate Governance. 2nd edition. New York, Oxford University Press.

Milgrom, P. and J. Roberts (1992). Economics, Organization and Management. Englewood Cliffs, Prentice Hall.

Miller, D. T. (1999). "The norm of self-interest." American Psychologist **54**(12): 1053-1060.

Mishel, L., J. Bernstein and S. Allegretto (2007). The State of Working America 2006/2007. 10th edition. New York, Cornell University Press.

Murphy, K. J. (1999). Executive Compensation. Handbook of Labor Economics. O. Ashenfelter and D. Card. Amsterdam, Elsevier Science Publishing. **3:** 2485-2583.

Ogden, S. and R. Watson (2008). "Executive pay and the search for legitimacy: An investigation into how UK Remuneration Committees use corporate performance comparisons in long-term incentive pay decisions." Human Relations **61**(5): 711-739.

Oliver, C. (1991). "Strategic Responses to Institutional Processes." Academy of Management Review **16**(1): 145-179.

Osterloh, M. and B. S. Frey (2003). "Corporate Governance for Crooks? The Case for Corporate Virtue." Institute for Empirical Research in Economics, University of Zurich Working Paper. 164: 1-28.

Pfeffer, J. and G. R. Salancik (1978). The external control of organizations: A resource dependence perspective. New York, Harper and Row.

Phillips, N., T. B. Lawrence and C. Hardy (2004). "Discourse and Institutions." Academy of Management Review **29**(4): 635-652.

Point, S. and S. Tyson (2006). "Top pay transparency in Europe: codes, convergence and clichés." International Journal of Human Resource Management **17**(5): 812-830.

Porter, L. and E. Lawler (1968). Managerial Attitudes and Performance. Homewood, Dorsey Press.

Porter, M. E. (1980). Competitive Strategy. New York, Free Press.

Porter, M. E. (1985). Competitive Advantage: Creating and Sustaining Superior Performance. New York, Free Press.

Rocha, H. O. and S. Ghoshal (2006). "Beyond Self-Interest Revisited." Journal of Management Studies **43**(3): 585-619.

Scott, W. R. (2008). Institutions and Organizations: Ideas and Interests. 3rd edition. Thousand Oaks, Sage.

Smith, A. (1776) The Wealth of Nations. Bantam Classic Edition 2003. New York, Bantam Dell.

Smith, H. J. (2003). "The Shareholders vs. Stakeholders Debate." MIT Sloan Management Review **44**(4): 85-90.

Solomon, J. (2007). Corporate Governance and Accountability. 2nd edition. Chichester, Wiley.

St-Onge, S., M. Magnan, L. Thorne and S. Raymondet (2001). "The effectiveness of stock option plans: A field investigation of senior executives." Journal of Management Inquiry **10**(3): 250-266.

Stock, R. (2008). "Lessons of the Past." The Sunday Star Times 29 December 2008, www.stuff.co.nz/print/4805313a20975.html, retrieved on 10 January 2009.

Sturdy, A. (2004). "The Adoption of Management Ideas and Practices: Theoretical Perspectives and Possibilities." Management Learning **35**(2): 155-179.

Taylor, F. W. (1911). The Principles of Scientific Management. New York, Harper.

Tushman, M. L., A. Fenollosa, D. N. McGrath, C. A. O'Reilly III, and A. M. Kleinbaum (2007). "Relevance and Rigor: Executive Education as a Lever in Shaping Practice and Research." Academy of Management Learning & Education **6**(3): 345-362.

Vroom, V. (1964). Work and Motivation. New York, John Wiley & Sons.

Wade, J. B., J. F. Porac and T. G. Pollock (1997). "Worth, Words, and the Justification of Executive Pay." Journal of Organizational Behavior **18**(S1): 641-664.

Young, M. D. (1958). The Rise of the Meritocracy, 1870-2033: An Essay on Education and Equality. London, Thames and Hudson.

Zajac, E. J. and J. D. Westphal (1995). "Accounting for the explanations of CEO compensation: Substance and symbolism." Administrative Science Quarterly **40**(2): 283-308.

Zajac, E. J. and J. D. Westphal (2004). "The Social Construction of Market Value: Institutionalization and Learning Perspectives on Stock Market Reactions." American Sociological Review **69**(3): 433-457.

Zattoni, A. and F. Cuomo (2008). "Why Adopt Codes of Good Governance? A Comparison of Institutional and Efficiency Perspectives " Corporate Governance: An International Review **16**(1): 1-15.

Tables

Remuneration Logics	Explanations or Justifications	Related Theories and Philosophies
Human Resources	High performing executives are a scarce resource, which makes their remuneration more costly than other employees. Thus a high level of remuneration is necessary to attract and retain high calibre managerial talent.	Managerialist Theory (Chandler, 1962); Stewardship Theory (Donaldson and Davis, 1991); Resource Dependency Theory (Pfeffer and Salancik, 1978); Human Capital Theory (Becker, 1964)
Agency	Incentives are necessary to align the interests of the CEO with those of the shareholders.	Agency Theory (Jensen and Meckling, 1976; Jensen, 1983)
Pay for Performance	The remuneration of executives should rise and fall with firm performance.	Scientific Management (Taylor, 1911); Variable Pay Philosophy (Anthony and Govindarajan, 1992)
Contribution	Individuals should be rewarded for their contribution to firm performance.	Meritocracy (Young, 1958); Theory of the Firm (Coase, 1937; Baker, 1939; Lewellen and Huntsman, 1970)
Achievement	Individuals should be rewarded for the achievement of specific performance objectives.	Goal Setting Theory (Locke, 1968)
Market	Market forces (of supply and demand) determine the level and form of remuneration. As executives can move freely between companies, a competitive remuneration package is necessary.	Market Theory: Classical Economics and the Invisible Hand (Smith, 1776); Neoclassical Economics (Milgrom and Roberts, 1992)
Fairness	Executive remuneration should be fair, equity, reasonable and not excessive.	Equity Theory (Adams, 1965)
Appropriate	Executive remuneration should be appropriate given the firm's circumstances and the level of managerial responsibility.	Contingency Theory (Gomez-Mejia and Balkin, 1992; Barkema and Gomez-Mejia, 1998); Managerial Discretion Hypothesis (Hambrick and Finkelstein, 1987)
Motivation	Executives are most effectively motivated using monetary incentives.	Expectancy Theory (Vroom, 1964; Porter and Lawler, 1968)
Consultant	External remuneration consultants advise boards of directors in order to ensure objectivity when setting executive remuneration packages.	Legitimacy Theory (Wade et al., 1997); Agency Theory (Eisenhardt, 1989)

Table 1: The Logics Used to Justify Executive Remuneration Practices

Institutional Isomorphism

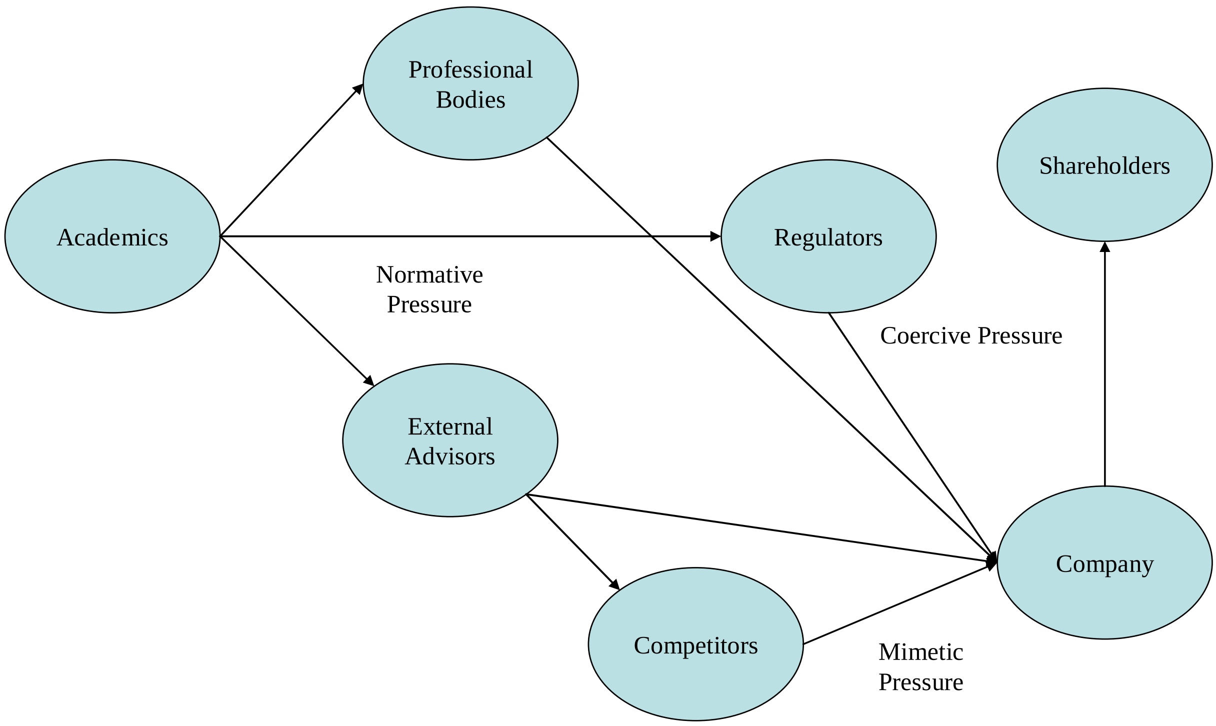

Diagram 1: The Institutional Landscape

Country	1991-1997	1998-2006	2007-2008	Total
Australia	5	11	2	18
New Zealand	1	10	0	11
United Kingdom	2	7	1	10
Total	8	28	3	39

Table 2: Number of Regulations in the Sample

Country	Top50-1998	Top50-2007	Continuous-1998	Continous-2007
Australia	50	50	48	46
New Zealand	48	50	45	40
United Kingdom	49	50	65	49
Total	147	150	158	135

Table 3: Number of Annual Reports of Companies in the Sample

Remuneration Logics	Examples from Annual Reports	Examples from Regulations	Keywords
Human Resources	"The company's remuneration strategy aims to attract, retain and motivate high calibre employees…" (Fletcher Building Ltd, 2007, p.46)	"Boards and remuneration committees must have flexibility to offer the packages required to attract, retain and motivate people of the calibre and experience they need to make their companies successful" (Greenbury, 1995, para. 6.5)	Attract; retain; select; secure; or recruit
Agency	"The company believes this shareholding strengthens the alignment of senior executives with the interests of shareholders and puts their own remuneration at risk to long-term company performance." (Fletcher Building Ltd, 2007, p.49)	"A key concern should be to ensure, through the remuneration system, that Directors share the interest of shareholder in making the company successful." (Greenbury, 1995, para. 6.16)	Align or link; interests or rewards; and CEO and shareholders
Pay for Performance	"Remuneration will incorporate, to a significant degree, variable pay for performance elements, both short term and long term focussed…" (Commonwealth Bank of Australia, 1998, p.126)	"A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance." (Financial Reporting Council, 2006, para. B.1)	Pay for performance; performance based; variable; or at risk
Contribution	"…and where each is well rewarded for their contribution to the success of the business." (Sainsbury, 1998, p.i)	"If a part of executive directors' remuneration is related to entity performance over time, their efforts are more likely to be focused on making a contribution to future investor returns rather than only on short term gains" (New Zealand Securities Commission, 2004, p.25)	Contribute; influence; effort; merit; impact; or delivery
Achievement	"In 1998 the bonus scheme was structured such that the bonus payable was equal to 10% of basic salary for the achievement of budgeted EPS targets and 20% for the achievement of more stretching EPS targets." (British Aerospace, 1998, p.34)	"Schemes involving performance bonuses or profit-sharing can assist in the growth of shareholder value by focussing employees on the achievement of key short-term individual and collective goals." (New Zealand Institute of Directors, 2005, para. 3.8)	Achieve

Table 4a: Examples of and Keywords associated with the Remuneration Logics

Remuneration Logics	Examples from Annual Reports	Examples from Regulations	Keywords
Market	"Executive Directors' salaries are reviewed each year by the Committee and adjusted to reflect the performance and the competitiveness of salaries relative to the market." (British Aerospace, 1998, p.34)	"Remuneration as a whole must be reasonable and comparable with market standards…" (Australian Institute of Company Directors, 2000, para. 5.2)	Competitive; market; comparable; or peers
Fairness	"For 2007, the Committee is looking at ways of operating the existing remuneration framework in line with the following key principles: …and • reward performance on a fair and equitable basis." (Sainsbury, 2007, p.37)	"Principle 8: Remunerate fairly and responsibly" (ASX, 2007, p.35)	Fair; reasonable; equitable; or not excessive
Appropriate	"Also, the Committee recognises the need to structure remuneration packages to incentivise and reward an appropriate balance between long and short term performance. (British Aerospace, 1998, p.32)	"Equity-based remuneration has limitations and can contribute to 'short-termism' on the part of senior executives. Accordingly, it is important to design appropriate schemes." (ASX, 2007, p.36)	Appropriate
Motivation	"These enhancements aim to strengthen the motivation of executives to produce superior performance." (Commonwealth Bank of Australia, 2007, p.52)	"Remuneration for directors should be set at levels designed to attract, motivate and retain the best people available." (New Zealand Institute of Directors, 2005, para. 3.13)	Motivate or incentivise
Consultant	"Directors are satisfied that they have received independent advice that this constitutes an appropriate remuneration package for the role of chief executive officer." (Fletcher Building Ltd, 2007, p.45)	"The committee may need to draw on outside advice. This should combine quality and judgement with independence." (Greenbury, 1995, para. 4.17)	Independent or external; and consultants or advisors

Table 4b: Examples of and Keywords associated with the Remuneration Logics

Industries	**Australia – 1998**	**Australia – 2007**	**New Zealand – 1998**	**New Zealand – 2007**	**United Kingdom – 1998**	**United Kingdom – 2007**
Banking & Finance	9	11	6	5	14	11
Investment Companies	2	2	5	4	0	0
Construction & Property	5	5	5	8	0	1
Consumer Goods	5	3	5	2	5	7
Engineering	1	0	0	4	3	2
Health	1	1	1	3	2	2
Industrials	5	5	1	0	1	0
Leisure	2	2	2	2	1	0
Media	2	2	3	2	5	5
Natural Resources	9	6	5	4	3	5
Professional & Support Services	1	2	0	0	1	0
Retailing	5	3	3	4	6	6
Technology	0	0	0	1	0	0
Telecoms	1	2	2	2	5	1
Transport	1	5	6	5	2	1
Utilities	1	1	6	4	1	4

Table 5: Industry Classification of Largest 50 Companies[7]

Headquarters	**Australia – 1998**	**Australia – 2007**	**New Zealand – 1998**	**New Zealand – 2007**	**United Kingdom – 1998**	**United Kingdom – 2007**
Australia	47	46	5	7	0	1
New Zealand	2	1	44	41	0	0
United Kingdom	0	0	1	1	47	47
Other	1	3	0	1	2	2

Table 6: Location of Headquarters of Largest 50 Companies

Countries Listed	**Australia – 1998**	**Australia – 2007**	**New Zealand – 1998**	**New Zealand – 2007**	**United Kingdom – 1998**	**United Kingdom – 2007**
New Zealand	0	0	34	30	0	0
New Zealand and Australia	8	6	9	16	0	0
New Zealand and Others	0	0	4	3	0	0
New Zealand, Australia and UK	0	0	3	1	0	0
Australia	21	31	0	0	0	0
Australia and UK	1	1	0	0	0	0
Australia and Others	20	12	0	0	0	0
UK	0	0	0	0	21	10
UK and Others	0	0	0	0	28	40

Table 7: Countries in which Largest 50 Companies are Listed

[7] While most companies do not operate exclusively in one industry, companies were classified into the industry in which the majority of their revenue is earned.

Financials	**Australia – 1998**	**Australia – 2007**	**New Zealand – 1998**	**New Zealand – 2007**	**United Kingdom – 1998**	**United Kingdom – 2007**
	AU$/US$	*AU$/US$*	*NZ$/US$*	*NZ$/US$*	*UK£/US$*	*UK£/US$*
Exchange Rate on 31 December	0.612	0.878	0.527	0.768	1.663	1.984
	AU$ (000,000)	*AU$ (000,000)*	*NZ$ (000,000)*	*NZ$ (000,000)*	*UK£ (000,000)*	*UK£ (000,000)*
Market Capitalisation	7,916[8] (9,088)[9]	23,661 (25,146)	2,842 (7,125)	5,326 (13,358)	19,119 (20,098)	27,847 (29,163)
Revenue	5,975 (6,852)	11,842 (13,972)	2,337 (5,660)	2,628 (6,430)	9,958 (9,524)	22,902 (33,322)
Net Profit after Tax	394 (604)	1,691 (2,548)	125 (575)	414 (1,063)	711 (572)	2,227 (3,222)
Total Assets	22,601 (45,069)	54,184 (109,239)	8,913 (29,784)	20,171 (78,825)	42,522 (65,831)	129,845 (303,381)
Net Assets	4,065 (4,822)	7,959 (9,000)	1,672 (3,566)	1,896 (4,642)	5,716 (12,176)	12,186 (18,457)
	AU$	*AU$*	*NZ$*	*NZ$*	*UK£*	*UK£*
Dividend per Share	0.31 (0.26)	0.75 (0.67)	0.17 (0.13)	0.24 (0.30)	0.19 (0.13)	0.29 (0.22)
	Ratio	*Ratio*	*Ratio*	*Ratio*	*Ratio*	*Ratio*
Return on Assets	4.50% (3.77%)	7.97% (7.91%)	5.78% (6.59%)	8.91% (8.15%)	6.84% (6.84%)	8.10% (7.02%)
Return on Equity	10.99% (7.93%)	22.40% (19.89%)	10.19% (14.06%)	19.83% (20.31%)	23.90% (29.11%)	40.01% (83.87)
Debt-to-equity	3.18 (4.74)	4.96 (8.86)	2.01 (3.94)	2.90 (8.04)	7.38 (10.19)	8.77 (15.26)

Table 8: Financial Statistics of Largest 50 Companies

[8] The first number in each box is the average.

[9] The second number (in parentheses) in each box is the standard deviation.

Regulations	Year Issued	Stock Exchange	Stock Exchange Regulator	Government Department	Directors' Association	Executives' Association	Professional Association	Fund Managers' Association	Financial Services Association	Investors Association	Employees' Association	Business Association	Academics (University)	Other	Total	Motivation
Australia																
Bosch Report (1st ed.)	1991	1			1	**1**	3		2						*8*	Excesses of the 1980s.
Bosch Report (2nd ed.)	1993	1			1	**1**	3	1	2						*9*	Excesses of the 1980s; Influence of Cadbury & US Business Roundtable reports; Australian court decisions.
Hilmer Report (1st ed.)	1993													**1**	*1*	Aftermath of the AWA Case; Excesses of the 1980s; New management theories; Developments in UK.
Bosch Report (3rd ed.)	1995				1	**1**	3		1						*6*	New listing rules & laws; Australian court decisions; Overseas developments in corporate governance, e.g. General Motors guideline (1992), Cadbury report (1992), Hong Kong code (1995), etc; Influence of institutional investors.
AIMA (1st ed.)	1995							**1**							*1*	---
Hilmer Report (2nd ed.)	1998													**1**	*1*	Aftermath of the AWA case; Excesses of the 1980s; Overseas developments in corporate governance, particularly UK.
IFSA (3rd ed.)	1999							**1**							*1*	Influence of fund managers; The Hoare Panel (1994); OECD principles.

Table 9a: Issuers of Regulations in Australia and Their Stated Motivation (2000-2007)[10]

[10] The bolded number indicates the main issuer of the regulation.

Regulations	**Year Issued**	**Stock Exchange**	**Stock Exchange Regulator**	**Government Department**	**Directors' Association**	**Executives' Association**	**Professional Association**	**Fund Managers' Association**	**Financial Services Association**	**Investors Association**	**Employees' Association**	**Business Association**	**Academics (University)**	**Other**	**Total**	**Motivation**
AICD on ESOS	2001				**1**										*1*	Corporations Act 2001.
Corporations Act	2001			**1**											*1*	Doubts about the enforceability of the old Corporations Law.
IFSA (4th ed.)	2002							**1**							*1*	Excesses of 1980s and recent high profile collapses
Horwath Report	2002												**1**	1	*2*	Recent collapses, e.g. HIH, Harris Scarfe, Ansett and OneTel.; US Blue Ribbon Committee Report (1999)
ASX Principles (1st ed.)	2003	**1**													*1*	---
AICD on Executives	2003				**1**										*1*	Corporations Act and new ASX listing rules.
ASA on Executive Pay	2004									**1**					*1*	Concern over growth in executive pay levels and relationship to performance.
CLERP Act	2004			**1**											*1*	High profile corporate collapses; Aim to restore confidence to the market.
IFSA (5th ed.)	2004							**1**							*1*	Excesses of the 1980s; CLERP 2004.
AICD on Executive Incentives	2007				**1**					1		1			*3*	Periodic review of policies
ASX Principles (2nd ed.)	2007	**1**													*1*	---
Proportional Involvement (1991-2007)		*10%*	*0%*	*5%*	*15%*	*7%*	*22%*	*12%*	*12%*	*5%*	*0%*	*2%*	*2%*	*7%*		

Table 9b: Issuers of Regulations in Australia and Their Stated Motivation (2000-2007)

Regulations	**Year Issued**	**Stock Exchange**	**Stock Exchange Regulator**	**Government Department**	**Directors' Association**	**Executives' Association**	**Professional Association**	**Fund Managers' Association**	**Financial Services Association**	**Investors Association**	**Employees' Association**	**Business Association**	**Academics (University)**	**Other**	**Total**	**Motivation**
New Zealand																
NZSE Listing Rules (1st ed.)	1994	**1**													*1*	---
NZSE Listing Rules (2nd ed.)	1999	**1**													*1*	---
NZICA on Transparency	2002						**1**								*1*	Response to US corporate governance and auditing crisis, e.g. Enron and Arthur Andersen
NZICA on Reporting	2003						**1**								*1*	Response to US accounting scandals, e.g. Enron and WorldCom
NZICA on Corporate Governance	2003						**1**								*1*	NZICA on Reporting (2003); US crisis & Sarbanes-Oxley Act (2002); OECD principles.
NZX Listing Rules (3rd ed.)	2003	**1**													*1*	---
NZ Securities Commission - Background & Consultant	2003		**1**												*1*	Initiated by Minister of Commerce; Draws on local bodies work (e.g. NZICA) and international practice (e.g. OECD); US corporate governance crisis.
NZ Securities Commission - Principles	2004		**1**												*1*	Initiated by Minister of Commerce; Draws on local bodies work (e.g. NZICA) and international practice (e.g. OECD); US corporate governance crisis.
NZSA on CEO Pay	2004									**1**					*1*	Shareholder disquiet
IOD's Code	2005				**1**										*1*	---
Proportional Involvement		*30%*	*20%*	*0%*	*10%*	*0%*	*30%*	*0%*	*0%*	*10%*	*0%*	*0%*	*0%*	*0%*		

Table 10: Issuers of Regulations in New Zealand and Their Stated Motivation

Regulations	**Year Issued**	**Stock Exchange**	**Stock Exchange Regulator**	**Government Department**	**Directors' Association**	**Executives' Association**	**Professional Association**	**Fund Managers' Association**	**Financial Services Association**	**Investors Association**	**Employees' Association**	**Business Association**	**Academics (University)**	**Other**	**Total**	**Motivation**
United Kingdom																
Cadbury Report	1992	**1**	1				1								*3*	Corporate scandals, e.g. BBCI & Maxwell; Societal perception that directors are overpaid; Harsh economic climate.
Greenbury Report	1995											**1**			*1*	Perception that directors received too many share options when utilities were privatised; Golden handshakes; Perception that no one is accountability for directors' remuneration.
Hampel	1998	**1**			1		1	1	1			1			*6*	Cadbury (1992) & Greenbury (1995) reports; Corporate scandals.
Combined Code (1st ed.)	1998		**1**												*1*	Hampel report (1998).
CIMA Report	2001						**1**								*1*	Cadbury (1992), Greenbury (1995) and Hampel (1998) reports.
Combined Code (2nd ed.)	2003		**1**												*1*	Higgs (2003) and Smith (2003) reports.
Deloitte Report (2004)	2004			1										**1**	*2*	Report requested by Department of Trade & Industry.
Combined Code (3rd ed.)	2006		**1**												*1*	Biennial review by Financial Reporting Council.
Combined Code (4th ed.)	2008	1	**1**				1								*3*	Biennial review by Financial Reporting Council.
Proportional Involvement		*16%*	*26%*	*5%*	*5%*	*0%*	*21%*	*5%*	*5%*	*0%*	*0%*	*11%*	*0%*	*5%*		

Table 11: Issuers of Regulations in the UK and Their Stated Motivation

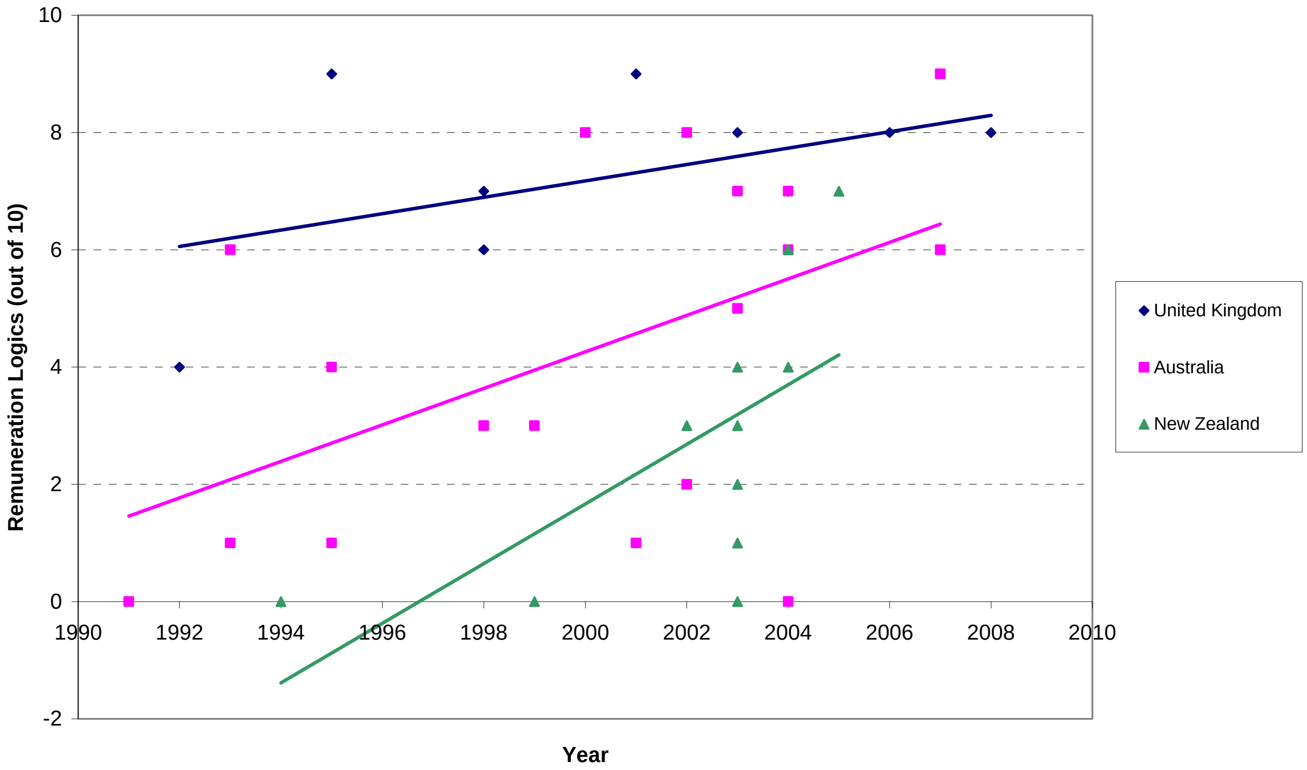

Chart 1: Number of Remuneration Logics in Regulations

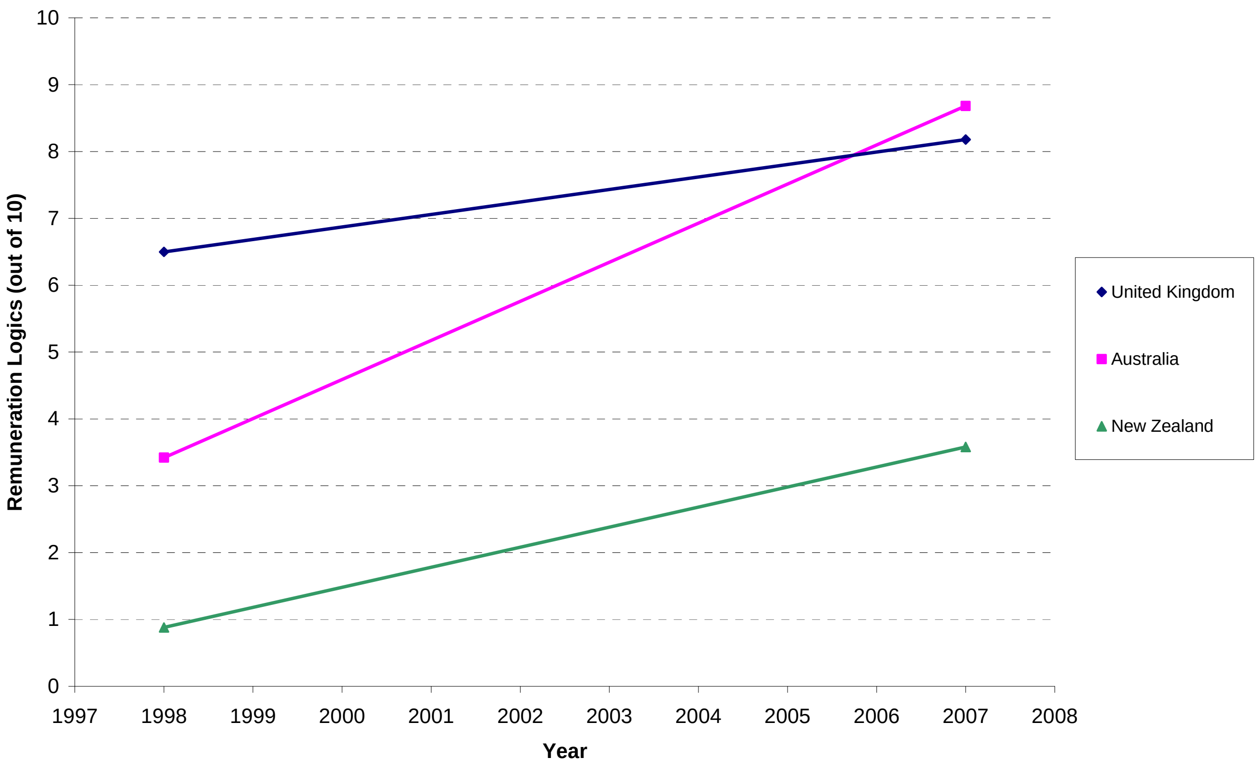

Chart 2: Number of Remuneration Logics in Annual Reports of Companies

	# of Texts	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant	*Total*
UK												
Top50-2007	50	0.96	0.88	0.96	0.44	0.92	1.00	0.36	0.80	0.90	0.96	*8.18*
Top50-1998	48	0.90	0.67	0.96	0.27	0.77	0.92	0.14	0.50	0.84	0.69	*6.50*
Continuous-2007	49	0.96	0.88	0.96	0.43	0.92	1.00	0.37	0.82	0.90	0.96	*8.18*
Continuous-1998	65	0.78	0.62	0.89	0.22	0.52	0.88	0.14	0.43	0.74	0.66	*5.88*
Regulation-1998to2007	8	1.00	0.86	1.00	0.14	0.43	1.00	0.71	0.71	0.86	0.71	*7.43*
Regulation-Pre1998	2	0.50	0.50	1.00	0.50	0.00	1.00	1.00	0.50	0.50	1.00	*6.50*
Australia												
Top50-2007	50	0.92	0.90	1.00	0.72	0.90	1.00	0.66	0.88	0.80	0.90	*8.68*
Top50-1998	50	0.52	0.22	0.56	0.12	0.22	0.60	0.00	0.18	0.36	0.64	*3.42*
Continuous-2007	46	0.93	0.89	1.00	0.74	0.91	1.00	0.63	0.89	0.80	0.91	*8.72*
Continuous-1998	48	0.46	0.21	0.58	0.10	0.25	0.56	0.00	0.23	0.33	0.54	*3.27*
Regulation-1998to2007	5	0.69	0.62	0.69	0.31	0.08	0.54	0.69	0.46	0.69	0.23	*5.00*
Regulation-Pre1998	13	0.40	0.20	0.40	0.00	0.00	0.00	0.20	0.80	0.40	0.00	*2.40*
New Zealand												
Top50-2007	50	0.54	0.34	0.66	0.22	0.32	0.38	0.22	0.30	0.32	0.28	*3.58*
Top50-1998	49	0.13	0.06	0.23	0.08	0.13	0.13	0.00	0.04	0.06	0.06	*0.88*
Continuous-2007	40	0.60	0.38	0.68	0.28	0.40	0.43	0.25	0.38	0.35	0.35	*4.08*
Continuous-1998	45	0.11	0.11	0.29	0.09	0.16	0.09	0.00	0.09	0.09	0.11	*1.13*
Regulation-1998to2007	10	0.30	0.50	0.50	0.10	0.10	0.20	0.40	0.50	0.40	0.00	*3.00*
Regulation-Pre1998	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	*0.00*

Table 12: Average Use of Remuneration Logics in the Annual Reports of Companies and Regulations

Number of Remuneration Logics	Australia – 1998	Australia – 2007	New Zealand – 1998	New Zealand – 2007	United Kingdom – 1998	United Kingdom – 2007
0	9	0	35	7	1	0
1	5	0	3	8	0	0
2	4	0	2	7	0	1
3	7	0	2	5	1	0
4	8	0	3	7	2	0
5	5	0	2	5	10	0
6	8	5	0	1	10	2
7	1	5	0	3	12	11
8	1	7	0	3	8	16
9	2	17	1	2	4	13
10	0	16	0	2	2	7
Total	50	50	48	50	49	50

Table 13: Number of Remuneration Logics per Company for Largest 50 Companies

	Australia			**New Zealand**			**United Kingdom**		
	1998	**2007**	**Sig.**	**1998**	**2007**	**Sig.**	**1998**	**2007**	**Sig.**
Human Resources	0.500	0.929	***	0.108	0.622	***	0.871	0.936	
Agency	0.238	0.905	***	0.135	0.405	**	0.613	0.839	*
Pay for Performance	0.571	1.000	***	0.270	0.676	***	0.871	0.936	
Contribution	0.119	0.738	***	0.108	0.297	*	0.226	0.419	
Achievement	0.293	0.905	***	0.162	0.405	*	0.586	0.936	**
Market	0.595	1.000	***	0.081	0.432	***	0.936	1.000	
Fairness	0.000	0.592	***	0.000	0.243	**	0.129	0.387	*
Appropriate	0.268	0.905	***	0.081	0.405	**	0.517	0.774	*
Motivation	0.381	0.810	***	0.108	0.378	**	0.807	0.871	
Consultant	0.571	0.905	***	0.108	0.351	*	0.645	0.968	**
Total Remuneration Logics	3.524	8.691	***	1.162	4.216	***	6.129	8.065	***
Number of Continuously Listed Companies[11]		42			37			31	

Table 14: Difference between Means of Continuously Listed Companies[12]

[11] The number of continuously listed companies has been reduced to those companies that have not changed significantly between 1998 and 2007, e.g. no major mergers or acquisitions.

[12] Key: *** Correlation is significant at the 0.001 level; ** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level.

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	0.220	1.000								
Pay for Performance	*0.358	0.276	1.000							
Contribution	0.108	**0.547	0.203	1.000						
Achievement	0.071	0.267	**0.404	0.225	1.000					
Market	**0.441	**0.434	**0.674	0.176	**0.363	1.000				
Fairness							1.000			
Appropriate	*0.346	0.128	0.206	**0.468	0.102	0.170		1.000		
Motivation	**0.637	0.205	*0.329	0.108	0.164	*0.357		*0.299	1.000	
Consultant	**0.364	**0.398	0.259	0.277	0.226	**0.493		0.134	*0.302	1.000

Table 15: Correlations between Remuneration Logics for Australian Companies in 1998[13]

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	0.147	1.000								
Pay for Performance			1.000							
Contribution	0.144	0.238		1.000						
Achievement	**0.393	0.111		0.238	1.000					
Market						1.000				
Fairness	-0.056	0.042		0.023	-0.099		1.000			
Appropriate	0.118	0.082		0.181	0.082		0.125	1.000		
Motivation	0.221	*0.333		-0.089	0.000		-0.042	-0.185	1.000	
Consultant	**0.393	0.111		-0.059	**0.556		-0.099	0.082	0.167	1.000

Table 16: Correlations between Remuneration Logics for Australian Companies in 2007

[13] Key: *** Correlation is significant at the 0.001 level; ** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level.

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	**0.423	1.000								
Pay for Performance	**0.543	**0.474	1.000							
Contribution	*0.342	**0.545	**0.374	1.000						
Achievement	**0.429	**0.423	**0.693	*0.342	1.000					
Market	**0.810	**0.423	**0.393	**0.570	0.238	1.000				
Fairness							1.000			
Appropriate	**0.552	**0.377	0.134	*0.314	0.236	**0.552		1.000		
Motivation	**0.423	**0.644	**0.474	0.234	**0.683	0.163		**0.377	1.000	
Consultant	**0.423	**0.644	**0.474	0.234	**0.423	**0.423		**0.377	**0.644	1.000

Table 17: Correlations between Remuneration Logics for New Zealand Companies in 1998

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	*0.324	1.000								
Pay for Performance	0.185	*0.337	1.000							
Contribution	**0.490	**0.434	0.177	1.000						
Achievement	**0.461	**0.413	**0.402	**0.567	1.000					
Market	**0.640	0.221	0.214	**0.479	**0.523	1.000				
Fairness	*0.296	0.128	0.177	0.068	0.153	**0.380	1.000			
Appropriate	*0.342	0.175	*0.286	*0.284	**0.487	**0.387	0.179	1.000		
Motivation	**0.633	*0.322	0.040	*0.360	0.265	**0.523	0.257	**0.393	1.000	
Consultant	**0.397	0.117	0.260	*0.314	0.241	**0.429	0.099	**0.369	0.145	1.000

Table 18: Correlations between Remuneration Logics for New Zealand Companies in 2007

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	0.053	1.000								
Pay for Performance	-0.070	0.076	1.000							
Contribution	0.050	0.024	-0.110	1.000						
Achievement	-0.020	0.043	0.136	-0.009	1.000					
Market	-0.101	0.269	*0.315	0.010	0.197	1.000				
Fairness	-0.055	*0.284	0.084	0.151	0.220	0.122	1.000			
Appropriate	-0.061	0.188	0.211	0.219	0.060	0.006	0.167	1.000		
Motivation	**0.398	-0.072	-0.091	0.140	0.027	-0.132	0.023	-0.101	1.000	
Consultant	0.069	0.010	-0.137	*0.299	-0.039	-0.036	-0.108	0.058	0.066	1.000

Table 19: Correlations between Remuneration Logics for UK Companies in 1998

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	0.239	1.000								
Pay for Performance	**0.479	0.239	1.000							
Contribution	0.181	0.079	0.181	1.000						
Achievement	*0.316	0.118	*0.316	0.261	1.000					
Market						1.000				
Fairness	-0.060	-0.108	-0.060	0.091	0.068		1.000			
Appropriate	**0.408	-0.031	0.153	0.040	0.221		0.271	1.000		
Motivation	0.272	0.082	0.272	0.027	0.147		-0.028	0.000	1.000	
Consultant	**0.479	0.239	**0.479	0.181	*0.316		-0.060	0.153	0.272	1.000

Table 20: Correlations between Remuneration Logics for UK Companies in 2007

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	0.039	0.119	0.066	0.109	-0.013	0.248	-0.087	0.109	0.205
Agency	0.101	-0.039	-0.121	0.105	0.074	0.218	-0.006	-0.015	0.054
Pay for Performance	*0.330	*0.313	0.111	**0.374	*0.296	0.268	-0.182	-0.056	*0.282
Contribution	0.205	0.150	-0.174	0.250	0.136	**0.377	-0.173	0.006	0.236
Achievement	0.219	0.214	0.253	0.257	0.194	*0.291	0.120	0.231	*0.279
Market	0.174	0.237	0.052	0.244	0.127	0.189	-0.117	-0.028	0.254
Fairness									
Appropriate	0.205	0.088	0.233	0.203	0.079	**0.390	0.088	*0.349	0.251
Motivation	0.046	0.014	0.029	0.125	0.073	*0.331	-0.050	0.056	0.171
Consultant	0.032	0.154	-0.103	0.150	0.006	0.233	-0.204	-0.023	0.185
Total Remuneration Logics	0.236	0.229	0.068	*0.324	0.173	**0.446	-0.116	0.104	*0.343

Table 21: Correlation between Remuneration Logics and Financials for Australian Companies in 1998[14]

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	0.255	*0.352	*0.317	0.080	0.024	0.042	0.077	0.131	0.106
Agency	-0.010	0.032	-0.056	-0.011	-0.055	-0.160	0.019	0.028	0.090
Pay for Performance									
Contribution	0.188	0.140	0.150	*0.309	0.157	0.091	-0.137	0.012	0.252
Achievement	-0.006	-0.022	-0.132	-0.014	-0.153	0.055	-0.077	0.003	0.129
Market									
Fairness	0.063	-0.082	-0.017	-0.164	-0.123	-0.018	-0.073	-0.146	-0.020
Appropriate	0.121	-0.017	0.225	0.078	-0.004	0.221	0.086	0.129	0.135
Motivation	0.136	0.182	-0.021	0.034	0.058	0.071	0.117	0.119	0.049
Consultant	0.210	0.092	-0.079	0.158	0.050	0.174	*-0.336	*-0.322	0.141
Total Remuneration Logics	0.261	0.169	0.101	0.126	-0.006	0.129	-0.092	-0.020	0.236

Table 22: Correlation between Remuneration Logics and Financials for Australian Companies in 2007

[14] Key: *** Correlation is significant at the 0.001 level; ** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level.

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	**0.440	*0.346	0.039	**0.461	**0.380	0.246	0.028	0.0362	**0.384
Agency	0.241	*0.308	***-0.512	*0.354	*0.336	0.039	*-0.328	*-0.286	0.055
Pay for Performance	***0.714	***0.642	0.108	***0.677	***0.628	0.248	-0.170	0.055	*0.289
Contribution	*0.336	0.258	-0.086	0.279	0.262	0.155	0.021	0.113	0.029
Achievement	***0.568	**0.457	0.176	***0.511	***0.516	*0.359	-0.091	0.080	0.173
Market	*0.285	0.203	-0.040	0.276	0.251	-0.011	0.071	0.045	0.133
Fairness									
Appropriate	-0.082	-0.120	0.036	-0.138	-0.145	0.090	*0.343	0.222	-0.050
Motivation	0.222	0.283	-0.111	*0.368	*0.298	*0.362	*-0.310	-0.175	*0.303
Consultant	0.149	0.239	-0.149	*0.317	0.256	0.005	*-0.310	-0.200	0.198
Total Remuneration Logics	***0.510	**0.455	-0.053	***0.534	**0.483	0.240	-0.120	0.000	0.258

Table 23: Correlation between Remuneration Logics and Financials for New Zealand Companies in 1998

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	**0.463	***0.565	**0.458	**0.378	*0.334	0.273	0.111	*0.297	0.218
Agency	**0.426	*0.348	**0.454	**0.366	**0.398	0.172	0.103	0.244	0.192
Pay for Performance	**0.392	*0.326	*0.356	**0.381	**0.407	0.261	-0.007	0.051	0.146
Contribution	***0.603	***0.664	***0.535	***0.616	***0.558	***0.550	-0.009	0.271	**0.412
Achievement	***0.672	***0.712	***0.494	***0.648	***0.632	*0.368	-0.099	0.148	*0.322
Market	***0.572	***0.614	**0.473	***0.583	***0.494	*0.295	-0.139	0.209	*0.331
Fairness	**0.409	*0.290	*0.350	**0.401	*0.352	0.171	-0.221	0.019	*0.333
Appropriate	**0.455	***0.536	*0.350	**0.396	*0.296	**0.399	0.113	*0.312	*0.350
Motivation	**0.409	***0.488	**0.453	*0.308	0.250	0.169	0.225	**0.449	0.240
Consultant	**0.369	**0.392	*0.300	*0.302	0.193	**0.450	-0.038	0.084	*0.354
Total Remuneration Logics	***0.762	***0.791	***0.676	***0.698	***0.623	***0.504	0.011	*0.337	**0.458

Table 24: Correlation between Remuneration Logics and Financials for New Zealand Companies in 2007

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	-0.192	-0.093	-0.086	0.008	-0.054	-0.067	-0.009	-0.068	0.020
Agency	*0.330	0.106	0.005	0.144	0.115	0.152	-0.110	0.202	0.100
Pay for Performance	-0.034	0.174	0.009	0.191	0.044	0.128	-0.193	-0.137	0.084
Contribution	0.105	-0.101	0.096	0.029	0.137	*0.339	0.000	-0.042	-0.080
Achievement	-0.029	0.207	0.007	0.007	0.007	0.250	0.117	-0.042	-0.130
Market	0.235	*0.282	0.093	*0.307	0.125	0.092	-0.126	*-0.333	0.014
Fairness	0.102	0.146	0.185	0.196	0.147	*0.317	0.015	0.016	0.128
Appropriate	0.087	0.058	-0.135	0.203	0.072	0.258	*-0.300	-0.013	0.134
Motivation	-0.148	-0.086	-0.098	-0.043	-0.122	-0.092	0.089	0.062	-0.084
Consultant	0.061	-0.224	-0.053	-0.011	-0.170	0.132	0.082	0.093	0.166
Total Remuneration Logics	0.195	0.098	-0.005	0.264	0.089	**0.428	-0.151	-0.137	0.089

Table 25: Correlation between Remuneration Logics and Financials for UK Companies in 1998

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	0.258	0.254	0.061	0.227	0.104	0.015	-0.187	0.051	0.111
Agency	0.200	0.245	-0.013	*0.287	0.253	-0.120	**-0.373	-0.066	0.125
Pay for Performance	0.069	0.176	-0.007	0.186	0.098	0.011	*-0.286	0.019	0.101
Contribution	-0.179	-0.098	0.056	-0.045	-0.230	0.094	-0.084	0.168	0.210
Achievement	0.028	0.135	-0.053	-0.044	0.004	-0.052	-0.081	0.045	-0.075
Market									
Fairness	-0.158	-0.037	0.021	-0.122	-0.167	-0.045	0.041	0.167	0.109
Appropriate	*0.322	0.235	0.023	0.131	0.104	0.122	-0.021	0.095	0.039
Motivation	-0.178	-0.169	-0.124	-0.042	-0.066	0.059	-0.193	0.010	0.007
Consultant	-0.119	-0.080	-0.104	0.045	-0.110	-0.185	*-0.312	0.028	0.109
Total Remuneration Logics	0.017	0.116	-0.013	0.096	-0.051	0.004	-0.276	0.153	0.184

Table 26: Correlation between Remuneration Logics and Financials for UK Companies in 2007

	Australia – 1998			Australia – 2007			New Zealand – 1998			New Zealand – 2007			United Kingdom – 1998			United Kingdom – 2007		
	1	**2+**	**Sig.**	**1**	**2+**	**Sig.**	**1**	**2+**	**Sig.**	**1**	**2+**	**Sig.**	**1**	**2+**	**Sig.**	**1**	**2+**	**Sig.**
Human Resources	0.524	0.517		0.871	1.000		0.031	0.313	**	0.333	0.850	***	0.905	0.893		1.000	0.950	
Agency	0.191	0.241		0.871	0.947		0.000	0.188	*	0.233	0.500		0.571	0.750		0.800	0.900	
Pay for Performance	0.476	0.621		1.000	1.000		0.031	0.625	***	0.567	0.800		0.952	0.964		1.000	0.950	
Contribution	0.095	0.138		0.645	0.842		0.031	0.188		0.100	0.400	*	0.095	0.393	*	0.500	0.425	
Achievement	0.143	0.310		0.903	0.895		0.000	0.375	***	0.067	0.700	***	0.810	0.750		0.900	0.925	
Market	0.571	0.621		1.000	1.000		0.063	0.250		0.100	0.800	***	0.905	0.929		1.000	1.000	
Fairness	0.000	0.000		0.677	0.632		0.000	0.000		0.100	0.400	*	0.048	0.214		0.200	0.400	
Appropriate	0.191	0.172		0.871	0.895		0.031	0.063		0.133	0.550	**	0.429	0.571		0.600	0.850	
Motivation	0.476	0.276		0.774	0.842		0.000	0.188	*	0.133	0.600	***	0.857	0.821		1.000	0.875	
Consultant	0.667	0.621		0.903	0.895		0.000	0.188	*	0.167	0.450	*	0.714	0.679		1.000	0.950	
Total Remuneration Logics	3.333	3.512		8.516	8.947		0.177	2.375	***	1.933	6.050	***	6.191	6.724		8.00	8.225	
Market Capitalisation	$5.19[15]	$9.89		$15.82	$36.45	**	$0.43	$7.96	***	$0.83	$12.08	**	£13.87	£22.92		£15.14	£31.02	
Revenue	$3.49	$7.77	*	$6.25	$20.97	***	$0.32	$6.61	***	$0.43	$5.92	**	£9.19	£10.52		£15.53	£24.74	
Net Profit after Tax	$0.18	$0.55	*	$0.91	$2.96	**	$0.02	$0.35		$0.05	$0.96	**	£0.65	£0.76		£1.38	£2.44	
Total Assets	$16.83	$29.39		$35.73	$99.70		$0.48	$28.77	**	$1.01	$55.29	*	£52.03	£37.35		£106.05	£158.75	
Net Assets	$2.53	$5.41		$6.15	$12.70	*	$0.24	$5.05	***	$0.54	$4.19	**	£3.61	£5.40		£6.84	£14.67	
Dividend per Share	$0.31	$0.30		$0.85	$0.63		$0.16	$0.21		$0.19	$0.36		£0.20	£0.21		£0.29	£0.30	
Return on Assets	5.3%	3.9%		7.1%	9.4%		6.8%	3.7%		9.3%	8.32%		6.5%	7.1%		7.3%	8.3%	
Return on Equity	12.6%	9.8%		17.8%	29.9%	*	10.4%	9.8%		15.8%	25.9%		29.3%	19.8%		23.4%	44.2%	
Debt-to-Equity Ratio	3.39	3.03		3.43	7.44		1.52	3.07		1.03	5.70	*	11.26	5.33		9.88	8.49	
Number of Companies	21	29		31	19		34	16		30	20		21	28		10	40	

Table 27: Differences between Means of Companies Listed in One Country and Multiple Countries

[15] Monetary figures are quoted in local currency (Australian dollars, New Zealand dollars and UK pounds) and in billions (except dividend per share).