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JUDGMENT CALL

What is the best response to critics of a CEO's pay rise?

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THE PROBLEM

News that total earnings for directors of FTSE 100 groups rose 55 per cent last year has sparked renewed criticism from employees, the public and shareholders about remuneration and performance. How should companies respond? Should they try to justify pay levels, ignore the criticism or try to reframe the debate?

THE ADVICE

 The investor: Jon Moulton

Companies should first listen to the criticism. It does look ridiculous that FTSE 100 pay rises so fast, and the social divisiveness it is generating will not help business interests one jot. Fat-cat jibes will be all too easy.

Shareholders should be concerned that their (expensive) remuneration committees seem to be as effective at controlling spending as Gordon Brown. A few strong questions at the annual meeting are entirely appropriate.

Some companies will be able to defend the very high pay levels but most should ponder if they really need to pay so much. Doing a big job well is generally a pretty satisfying experience for most people. There is no evidence that you need to pay massively to get good people.

The writer is the founder of Better Capital, a private equity firm

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 Compensation expert: Sophie Black

The 55 per cent increase is headline grabbing but one must dig a little deeper to understand the true story. This rise is almost entirely down to increased bonus and long-term incentive pay-outs based on companies' improving performance. That should be regarded as an indication that performance-based pay is working.

Remuneration committees need to reframe the debate. Shareholders are demanding pay for performance but companies are criticised when it works in the way it is intended, ie reduced pay-outs in poor years and increased pay-outs when performance returns. Communication with shareholders is, therefore, key to managing the process. Base salary increases are incredibly restrained, and certainly below inflation.

The writer is remuneration adviser in Mercer's human capital business

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 The recruiter: Janice Ellig

Actions speak louder than words. When company results are good, financial rewards should be given to all employees, starting at the bottom. Executives should be rewarded for sustainable growth, profitability and good corporate governance over a five-year horizon. And when a C-suite executive is fired for poor performance, he or she shouldn't be paid outlandish sums.

Companies should also reduce executive pay when a crisis hits. Vikram Pandit, Citigroup’s CEO, set a good example by agreeing to take a salary of $1 until the company returned to profitability.

Ultimately, the CEO should be committed to doing the right thing, even when it might impact short-term results and their own compensation.

The writer is co-CEO of Chadick Ellig