

The Relation Between Remuneration Board And Corporate Failure in The United Kingdom

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Abstract: This research examines the correlation between pay attributes and the corporate failure of UK financial institutions from 2015 to 2024. This study has analyzed four factors of remuneration: political connection, age, turnover, and ethnicity. The sample comprises 650 observations collected over twelve years, from 2015 to 2024. Among the four traits, political connection, age, and turnover negatively correlate with corporate failure. The final aspect of this study is ethnicity, which recent research has shown to have a negative and inconsequential correlation with corporate failure.

Keywords: Corporate failure; financial firm; remuneration; UK.

1. Introduction

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Since the onset of the twenty-first century, corporate failure has undergone a significant transformation, leading to a rising number of companies experiencing financial distress and/or necessitating the cessation of operations entirely. The contemporary financial crisis exposed the fragility of global economic systems and induced significant instability, immobilizing specific financial markets. The capacity to forecast corporate insolvency is an essential requirement, particularly for maintaining the relationship between financial institutions and enterprises. Consequently, studies on company failure have proliferated, becoming a prominent research area within the broader field of corporate finance.

Moreover, prominent corporate collapses, such as Lehman Brothers, have sustained corporate governance and failure as focal points in academic discourse (Jermias and Gani, 2014), indicating that ensuring a firm's survival is the paramount obligation of boards (Platt and Platt, 2012). As a result, the global investor community advocates for reforms to enhance the efficacy of boards and their committees (Clarke et al., 2006). Such appeals have

garnered legal and regulatory endorsement. The Sarbanes–Oxley Act (2002) delineates corporate governance responsibilities to improve firm sustainability by alleviating principal-agent conflicts. Prior research on business failure prediction (Pompe and Bilderbeek, 2005) has predominantly concentrated on the impact of financial information, with only a limited number of studies addressing the influence of corporate governance on firm failures.

This crisis has presented novel problems to scholars examining firms in relation to the current conditions. The new perspective emphasizes a greater focus on artificial intelligence predictive methodologies, variable selection, and data attributes. This research has effectively advanced more proficient corporate failure prediction models. Notwithstanding its significance, the domain of business failure has been deficient in understanding the construction of prediction models. The experimental design must be examined as it can substantially influence the outcomes.

The number is rising despite the significance of executive compensation as a governance instrument, which has been deemed to enhance business performance (Conyon and Peck, 1998). The significance of board committees (Klein, 1998): limited knowledge exists regarding the impact of the pay committee on company failure. This research seeks to address this deficiency. This article analyzes explicitly the influence of remuneration committee efficacy. Moreover, committees inside a corporation are crucial for protecting stakeholders' interests and enhancing shareholder value, as they facilitate the implementation of effective corporate governance. One of these panels is the compensation committee. The remuneration committee is professionally responsible for the board selection process to prevent undue influence from the chief executive officer (CEO) or board chairpersons and to offer recommendations and counsel to the board concerning the remuneration of board members (Al-Absy et al., 2018).

The remuneration and appointment committees are tasked with recruiting and electing new directors while ensuring an unbiased process for selecting board members. The remuneration committee formulates policies about compensation to ensure that the compensation system does not favor management to the detriment of shareholders and other stakeholders (Puni and Anlesinya, 2020).

Remuneration Committee about company failure in the United Kingdom The remuneration committee comprises a composite assessment of five dimensions:

- a. Turnover of a compensation committee.
- b. Political affiliations of pay committee members;
- c. Ethical standards of remuneration committee members
- d. Age of remuneration committee members

Utilizing a sample of 400 leading UK-listed firms from 2015 to 2024, we identify a substantial negative correlation between RCE and corporate failure after accounting for financial and firm factors, board size, and makeup. Corporate failure is significantly and adversely associated with the independence of the pay committee chairperson. Unexpectedly, the independence of compensation committee members has a significant and favorable impact on corporate failure. Our contributions are four in number. Initially, we investigate the correlation between corporate board structure and company failure within the UK setting. Currently, evidence regarding the impact of remuneration committees on corporate failure in the UK is notably insufficient. Prior US study findings may not be relevant in the UK due, in part, to fundamental differences between Chapter 11 and the Insolvency Act (1986). This study is the inaugural effort to formulate and evaluate a theoretical model for assessing the financial health of UK companies. Previous predictive models in the UK predominantly rely on empirical methods. Third, we assess our study issue

using six dimensions of the remuneration committee: presence, independence, chairman's independence, size, frequency of meetings, and effectiveness. Platt and Platt (2012) examined the variables of the pay committee in isolation, overlooking a thorough investigation of the causal links between the remuneration committee and company failure. This partially constrains our comprehension of the impact of the remuneration committee on company failure. This study is the inaugural effort to develop an RCE index that reflects Cadbury's (1992) and Greenbury's (1995) suggestions.

Greenbury (1995) and Higgs (2003) support Cadbury's advice regarding the board remuneration committee, highlighting its status, membership, meetings, and resources. Appropriate compensation is inherent in the committee reforms. The committee can mitigate the primary agency conflict by implementing effective board oversight and assessing the CEO's performance, thus improving the firm's chances of survival.

2. Literature review and hypotheses development

2.1 Definition of corporate failure

This section delineates corporate failure, establishing the initial methodological choice for this study and identifying the most suitable experimental samples for model construction. A globally agreed definition is absent, and corporate failure has been examined from diverse viewpoints (e.g., legal, economic, financial, and econometric), resulting in numerous conceptualizations that may signify failure.

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Since Altman's (1968) initial empirical research, corporate failure has frequently been regarded as a binary classification, wherein each sample comprises entities corresponding to a predetermined category (failed or non-failed enterprises). This definition of failure is contingent upon a particular situation and seeks to establish a criterion for differentiating between failed and non-failed enterprises. In the twenty-first century, the predominant definition of failure pertains to insolvency. This juridical concept pertains to a definitive and grave form of failure that might result in the dissolution of enterprises facing significant liquidity and solvency issues (Joos et al., 1995). The prevalence of this bankruptcy indicator presumably stems from its provision of an apparent dichotomy that objectively evaluates organizations' financial status and can be accurately timestamped. Companies can, therefore, be distinctly classified into two groups at a specific timeframe: failed (those undergoing bankruptcy proceedings) and non-failed (those not undergoing bankruptcy proceedings). Bankruptcy measures predominate; nonetheless, they have a limitation as they do not consider whether the bankruptcy declaration arises from financial indicators of failure or other factors (Balcaen and Ooghe, 2006), resulting in abrupt bankruptcy samples. Contaminated samples would adversely affect model construction as they cannot be analyzed from a financial standpoint. If the incorporation of abrupt bankruptcy cases must be circumvented, is there a more practical alternative definition of failure? The research in this study indicates that some define financial hardship as a form of failure, suggesting that a company experiences financial difficulties or struggles to meet its responsibilities. Platt and Platt (2002) characterize financial difficulty as many years of negative net operating income, cessation of dividend distributions, substantial restructuring, or workforce reductions. This definition is problematic as financial distress is arbitrary (Keasey and Watson, 1991), rendering the criterion for distinguishing firms and categorizing them over a specific period subjective and reliant solely on the author's interpretation of

financial distress. An empirical study employing this concept of failure necessitates careful assessment, as the subjective character of financial suffering may yield skewed outcomes. In certain instances, the notion of financial crisis is advantageous not due to its superior dichotomy but because it corresponds with the Chinese institutional definition of failure. Consequently, bankruptcy is the most appropriate indicator of organizational failure since it provides an objective criterion for discriminating from an empirical research standpoint, facilitating future data development.

2.2 Agency and Stewardship Theories

In corporations, shareholders (investors) confer decision-making authority to executives (agents) to operate in their (principals) best interest. Partially indicates a relinquishment of ownership control by shareholders about decision-making authority on corporate management issues. The agency theory posits that issues are promptly addressed when the board of directors consists of individuals who possess limited knowledge of the company or lack personal relationships with senior management. It suggests that a significant proportion of the board of directors for effective firm management should comprise individuals from varied backgrounds. The agency hypothesis posits that senior management should have considerable ownership and financial interest to guarantee long-term success. Agency theory focuses on reconciling the interests of owners and managers. It is predicated on the inevitable conflict between the interests of a firm's proprietors and its management. This indicated that managers now held more excellent knowledge and skill than the firm's owners, enabling them to engage in self-serving actions detrimental to the shareholders. Jensen and Meckling (1976) posited that agency costs are an inescapable aspect of the management-ownership relationship and formalized this proposition into a mathematical model. The unequivocal implication for corporate governance is that sufficient monitoring systems safeguard shareholders against management's conflicts with their money (equity).

The Memorandum and Articles of Association empower corporate directors to make autonomous executive decisions on all issues about the corporation on behalf of shareholders. These authorities are classified into two categories: actual authority and seeming authority. The company's constitution establishes the initial form of authority, the Articles and

Memorandum of Association (Dine, 2005), whereas the latter is intrinsic to the role of directorship.

The stewardship idea posits that executives are more inclined to operate in the corporation's best interest than in their self-interests. This paradigm emphasizes elevated needs, including a sense of accomplishment and self-actualization. It is predicated on the assumption that senior executives perceive organizations as extensions of their identity rather than utilizing the firm for personal gain. These executives primarily focus on ensuring the corporation's sustained viability and prosperity. The connection between the board and top management is characterized by a principal-steward dynamic rather than a principal-agent ("hired hand") relationship. Consequently, the stewardship theory asserts that, in numerous cases, top executives may prioritize the company's long-term success over the immediate interests of short-term shareholders who can liquidate their shares at will (Carson, 2008).

Diverse governments implement distinct corporate governance approaches to promote effective governance frameworks. The Anglo-American model, exemplified by the USA, UK, and Australia, prioritizes a robust stock market, rigorous investor protection, extensive disclosure, and independent banking ties (Jeremy et al., 2000). This approach is predicated

on the framework of individual or institutional shareholders who are external to the firm. The principal stakeholders in this approach are the management and the board of directors. This model is intended to establish a distinct division of authority between the management and ownership of the organization. The board of directors consists of internal members (executive directors) and external members (non-executive directors). This framework is crucial for maintaining checks and balances in executing the corporation's tasks and responsibilities. In contrast, the Germany–Japan model, which is common in Germany, continental Europe, Japan, and certain regions of Asia, emphasizes the significance of long-term relationships between managers and investors, as well as between firms and banks, characterized by concentrated ownership and cross-shareholdings among firms and financial institutions (Jeremy et al., 2000).

2.3 The match between corporate success and corporate failure

Corporate failure is defined by the erosion of shareholders' equity, job losses, capital flight (as observed in East Asian countries in 1998), and corporate insolvency. In the event of corporate failure, investors will likely forfeit their money and suffer reputational damage. Consequently, corporate failure frequently denotes adverse consequences for the company, its leaders, and its employees, who may face a job loss but also impact the economy—specifically, the rationale behind governmental interest in corporate governance.

The matter of bank bonuses in the UK underscores the willingness of business executives to disregard ethical standards in corporate governance for personal gain. Corporate executives have been motivated by avarice and the pursuit of substantial year-end bonuses, neglecting ethical considerations and the long-term viability of their organizations. This has raised numerous problems, exemplified by the recent shutdown of many firms during the global financial crisis (2007-2010). One example is Lehman Brothers Ltd., a heavily leveraged broker-dealer that fell due to its reckless pursuit of imprudent risks. The British Government nationalized Northern Rock and the Royal Bank of Scotland, while HBOS was compelled to merge with Lloyds Banking Group under analogous conditions. Merrill Lynch was acquired by Bank of America in the USA, with oversight from the Federal Reserve Bank of New York; Goldman Sachs received assistance from Warren Buffett (Daily Mail, 2012). The crises above were partly attributable to inadequate corporate governance, particularly reckless risk-taking motivated by the avarice of corporate executives seeking substantial year-end bonuses.

I contend that failings in corporate governance have been partially attributable to the excessive enthusiasm of bank executives, who expanded too rapidly and extensively without implementing suitable governance mechanisms to ensure effective control of their operations. Executives have acknowledged (Evening Standard Newspaper, 6th February 2013) that the inherent deficiencies of multinational banks such as HSBC, Barclays, and Citibank have rendered them unfit for their intended function. We must remember that criminals will consistently seek to uncover vulnerabilities in the system and use them to further their illicit objectives. The structural vulnerabilities of major banks like HSBC have recently garnered attention due to allegations of money laundering and terrorism funding. The global banks seem to exhibit the phenomenon of being "too big to manage." With over 100 national leaders reporting to a single chief executive, certain banks will inevitably be susceptible to regulatory problems. Even if regulatory norms like "Know Your Customer," intended to combat money laundering, are not enforced by local banks, it remains difficult for an executive in London to ascertain this information. Bank officials may collude to

exploit the system, potentially remaining unnoticed for an extended period, and individuals dependent on reports from national leaders cannot ascertain this without being provided with pertinent information. Nonetheless, in the instance of HSBC, US authorities alleged that it was sluggish in implementing adequate anti-money laundering safeguards. In response to the damning assessment of HSBC's shortcomings by the Office of the Comptroller, the bank reportedly allocated \$700 million to reassess its global "Know Your Customer" protocols. Nonetheless, specific regulatory failings in prominent banks have also been attributed to rampant avarice. Corporate executives, driven by greed, have disregarded their clients' risk profiles in pursuit of substantial bonuses. Undocumented migrant workers in the USA possess unrestricted access to finance, enabling them to purchase five-bedroom houses in locations such as Washington and New York. This would not have been a significant issue during prosperous economic conditions when the economy was robust and illegal immigrants worked several jobs to meet their debt obligations. During adverse economic conditions, undocumented migrants struggle to secure alternative employment as native workers vie for positions they would have previously disregarded. The deceleration of the US domestic economy and the EU suggests that lenders are likely to incur losses, while borrowers may face unemployment with limited short-term prospects for alternative employment. Frequently, engaging in illicit employment proves beneficial in a thriving economic climate characterized by job opportunities that locals are unwilling to undertake. During adverse economic conditions, when native workers are also seeking undesirable employment to meet financial obligations such as mortgages and other essential needs, undocumented immigrant laborers face significant disadvantages. The banks' underappreciation of customer risk assessment protocols significantly contributed to the onset of the global financial crisis (ACCA, 2009).

The recent global financial crisis has revealed a distinct relationship between corporate governance and corporate failure (ACCA, 2009). Following the aforementioned financial crisis, there was an increase in bankruptcies, including Northern Rock, Britain's fifth-largest mortgage lender, among others in various jurisdictions, as previously detailed. Banks finance mortgages by accepting deposits and lending those funds to multiple consumers while borrowing from wholesale financial markets. Financial institutions can consolidate current mortgages into portfolios and sell the associated debt to investors. The procedure above is termed securitization, which banks extensively utilize alongside borrowing from money markets to acquire capital. As a result of the extraordinary volume of sub-prime borrowers defaulting on their loan commitments, both funding sources were unavailable. According to the economic theory of price mechanisms, an increase in demand results in a higher price, and conversely, a decrease in supply leads to a higher price, and vice versa. This indicated that the interest rate would surge due to the diminished influx of capital into the market. The LIBOR interest rate scandals involving Barclays Bank, the widespread mis-selling of payment protection insurance by the central UK banks, and money laundering suspicions against Standard Chartered Bank and HSBC exacerbated the problem. The climate above unsettled the market and restricted the availability of cash for prospective borrowers. Consequently, sub-prime customers with poor credit histories could not maintain their loan repayments. A potential risk existed for those with low incomes to default, as expenditures are typically planned according to income levels. Sudden market fluctuations might jeopardize borrowers' capacity, particularly those with modest incomes, to fulfill their loan obligations.

The resultant climate unsettled the market and compelled banks to cease lending to clients and one another. This subsequently precipitated the economic downturn recently observed in

numerous locations. The World Trade Organization forecasts a decline in global trade growth from 3.7 to 2.5 percent this year, less than half the average rate of the preceding two decades (Daily Mail, 2012). This is mainly due to the credit crisis in Europe and the deceleration of the US economy's development. The inadequacy of corporate governance significantly contributed to the financial and credit crisis in these two economies. Corporate executives were discovered to have neglected risk management protocols by excessively risk-taking in pursuing substantial year-end bonuses. Nonetheless, there were extraordinary circumstances (attributable to external forces) in which corporations encountered dire economic conditions due to globalization and its repercussions on businesses.

Corporate governance is essential for organizations to achieve their aims and improve the stability of financial markets. The collapse of organizations can precipitate numerous disastrous outcomes, particularly the deterioration of investor confidence, subsequent capital flight, and the shutdown of businesses. Empirical research substantiates that some corporate traits typify organizations that do not attain their objectives.

Failures in governance. The collapse of certain corporations, exemplified by Enron (2003), was marked by the detrimental reputation of internal audit departments, adverse perceptions of the corporation, the lack of formal corporate governance structures, and insufficient staff awareness regarding business risk management and governance matters (Weasels, 2004). The primary reasons for the failure of numerous firms and the subsequent liquidation of various commercial banks (by the Bank of Uganda in the 1990s) were, among other factors, inadequate corporate governance structures and obsolete internal audit procedures. The post-closure committee of inquiry established to examine the closure of multiple commercial banks by the Bank of Uganda advised enhancing corporate governance and refining internal audit standards (BOU Bulletin, 2000). Consequently, it can be deduced that strong corporate governance systems allow organizations to manage risks and attain improved performance and stability effectively (IFC, 2003). The panel appointed to investigate the closure of banks in Uganda during the 1990s disclosed that politicians and business individuals circumvented established protocols to engage directly with executives. Executives would disregard reporting protocols that jeopardized business goals and endangered shareholders' equity. Certain bank managers saw corporate funds as personal assets and extended loans to preferred individuals according to established protocols. Financial institutions' absence of regulatory monitoring allowed certain criminals to exploit the system's vulnerabilities fully. Risk assessment protocols were reportedly disregarded, compromising corporate governance procedures and standards.

2.4 Political Connection between the remuneration committee and corporate failure

The relationship between business and government has been well-examined in scholarly writing worldwide. Numerous justifications are presented in the literature to endorse the favorable correlation between political connections and corporate performance. Su and Fung (2013) assert that cultivating political relationships enables enterprises to enhance their sales and reduce financing expenses. Resource-based theory posits that political linkages give enterprises competitive advantages stemming from government-provided tangible and intangible resources that are challenging or expensive for rivals. Consequently, companies are predominantly inclined to cultivate political relationships to obtain essential government-controlled resources. Secondly, previous research has indicated the economic advantages a company can derive from maintaining tight relationships with politicians, which encompass:

- Acquiring government contracts.

- Obtaining government bailouts in case of financial distress.
- Decreased regulatory enforcement.
- Ensuring the safeguarding of property rights.
- Reducing tax liabilities.
- Obtaining governmental financial assistance.
- Obtaining legal and extralegal protection
- Advantageous governmental regulations that inhibit competitors from joining the industry.

Assume the initial argument posits that political influence advantages a corporation, as asserted by resource-based theory. Consequently, one can anticipate the value of a pay committee in enhancing performance. Nevertheless, political connections induce uncertainty and external hazards, as posited by agency theory. We hypothesize that the remuneration committee is more significant in enhancing performance. Anecdotal data indicates that political connections lack value, especially in developing economies like the UK (Fan et al., 2007; Zhang et al., 2014; Saeed et al., 2016). Consequently, grounded in the agency and grasping hand theory, we propose that:

There is a negative relationship between the political connection of remuneration committees and corporate failure.

2.5 Ethics of the remuneration committee and corporate failure

Chan and Cheung (2012) contend that effective governance techniques are not implemented and sustained efficiently. A clear and well-structured ethics policy, ethical leadership, and the incorporation of ethics norms and regulations into organizational strategies, procedures, and processes are also essential. Schwartz et al. (2005) asserted that failures in corporate governance, notably Enron and WorldCom, demonstrate the inherent inadequacies of the current legal system; therefore, recognizing and fulfilling ethical obligations is an essential supplementary duty for corporate directors.

Neu et al. (2013) corroborated the assertion presented by Schwartz et al. (2005). Neu et al. (2013) demonstrated the mechanisms of creative accounting and shown how accounting, in conjunction with social networking, facilitates corruption. Despite the implementation of controls, campaigns, and anti-bribery legislation, the authors found that these measures merely eliminate overt instances of bribery and fail to eradicate corruption. A social network of political and corporate actors facilitates corruption. This is unremarkable, as other notable instances of corporate fraud exist, including Enron and Lehman Brothers, as well as Transmile in the UK, which implicated various internal and external stakeholders. These "meticulously orchestrated" controversies arose from the exploitation of vulnerabilities inside the prevailing laws, rules, and regulations. Consequently, fraudulent trials and transactions can be effortlessly concealed through intricate and convoluted traces.

Under these conditions, ethics is essential in preventing individuals from engaging in deceptive alliances. Legislation, rules, regulations, and guidelines provide a comprehensive operational framework; but, organizations and their personnel must implement significant changes in their corporate culture to prevent fraudulent and unethical conduct (Andreidakis, 2011). A research by the Ethics Resource Centre revealed that culture significantly influences ethical behavior among firm personnel (Ethics Resource Centre, 2005). Based on these considerations, the subsequent hypothesis is formulated:

There is a negative relationship between the ethics of remuneration committees and corporate failure.

2.6 Turnover of the remuneration committee and corporate failure

Although new board members require time to realize their full potential for the organization, prolonged tenures result in a decline in the quality of their decision-making (Huang & Hilary, 2018). Zhong, Ren, and Song (2021) contend that boards with extended tenures are generally more myopic and, hence, less predisposed to invest in long-term value generation. Likewise, although the degree of the board's outsidership significantly affects receptivity to performance criticism (Choi et al., 2019), Dalton et al. (2007) speculate that this effect will likely diminish over time. This aligns with Dalton et al. (2007), who imply that board members, particularly internal ones, selected during the current Chief Executive Officer's tenure may demonstrate devotion to them. This effect is expected to be most pronounced shortly following the appointment. Increased board churn hinders external board members from adapting to the company's internal dynamics. To some degree, the same can be asserted for internal board members.

Board turnover appears to be a crucial precondition for the influx of innovative ideas and the readiness to pursue strategic alternatives prompted by performance feedback. Goodstein and Boeker (1991) contend that newly appointed board members might introduce innovative concepts and contest the existing norms of the organization. Consequently, heightened turnover may enhance the propensity to seek alternatives and diminish resistance to altering the status quo. In this context, both components of the search scenario (difficult and slack search) should be emphasized with rising board turnover. I propose the following hypothesis:

There is a negative relationship between the turnover of the remuneration committee and corporate failure.

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2.7 Age of remuneration committee and corporate failure

Diverse boards ought to deliberate on a wider array of strategic options. Homogeneous groups often encounter heightened pressures for vocal homogeneity, hence elevating the likelihood of succumbing to groupthink (Janis, 1971). Haynes and Hillman (2010) assert that general board diversity constitutes one of the two elements of total board capital, specifically its breadth. Haynes and Hillman (2010) demonstrate that, unlike board capital depth, increased board capital breadth correlates with a greater degree of strategic shift. Assume that companies with more diverse boards are more likely to embrace change. In that scenario, they exhibit more receptiveness to responding to stimuli related to both negative and positive achievement discrepancies by augmenting their search activity.

Conversely, Goodstein et al. (1994) contend that variety within a group may impede the board's capacity to make decisive decisions. In this instance, it is crucial to differentiate between a company's exploration of other strategies (this research) and its final commitment to those strategies. Haynes and Hillman (2010) operationalized strategic change by examining a series of resource allocations—advertising, R&D, selling, general and administrative (SG&A) expenses, inventory, plant equipment upgrades, and financial leverage—analyzing their temporal variations and deviations from industry standards. This contrasts with a series of definitive decisions, including service expansions, divestitures, or reorganizations, as examined by Goodstein et al. (1994). Diverse boards may facilitate a more comprehensive exploration of alternatives, possibly resulting in varied perspectives on the firm's future development. However, kids may encounter challenges in selecting from this multitude of options.

Diversity can be assessed across multiple dimensions. Harjoto et al. (2015) examined seven variables: gender, race, age, external directorship, tenure, power, and expertise. Nonetheless, even this comprehensive list is far from exhaustive. Gender and age diversities are prevalent selections for diversity metrics (Kang et al., 2007). Conversely, despite the rise of measures promoting gender-diverse boards, many nations still exhibit significant homogeneity in terms of gender representation on these boards (e.g., Janosov et al., 2016). Although age diversity is constrained due to a paucity of young board members, the circumstances are comparatively improved (Kang et al., 2007). Consequently, the study examines board age diversity.

Based on the preceding premise, I propose that boards exhibiting greater age diversity are likely to engage in more search activities in response to performance criticism.

There is a negative relationship between the age of the remuneration committee and corporate failure.

3. Method

3.1 Data

A firm is said to have failed if it has filed for insolvency in accordance with the UK Insolvency Act of 1986 (Charitou et al., 2004). The population span is confined to 1 January 2015 to 31 December 2024. The objective is to gather a minimum of ten years of corporate governance data. The composition of our sample of unsuccessful enterprises is as follows. Initially, we compile a list of 5,000 inactive companies using the databases of Financial Analysis Made Easy (65 financial firms) and Thomson One Banker (4,507 firms). Subsequently, we verify the status of each entity and retrieve the insolvency date from the Companies House website. The financial firms rank among the top 65 publicly traded companies on the London Stock Exchange.

4. Results

4.1 Descriptive statistics

Table I displays the descriptive statistics for the two mutually exclusive categories of firms: failed and non-failed. During our study period from 2015 to 2024, an average of 99% of non-failed UK enterprises possess remuneration committees. The average percentage of remuneration committees with a linking relationship is 23.52%, and the age range of the remuneration committee members is between 35 and 65 years. The average age is 48 years, while the tenure of the pay committee ranges from 0 to 15 years. The pay committee has 100 percent international members and 0 percent domestic members.

Table 1: Descriptive statistics

Variable l	Obs	Mean	Std. Dev	Min	Max
POLCO	650	0.235294	0.437237	0	1
TOROV	650	7.882353	7.364462	0	15
AGE	650	48.35294	9.123741	35	65
ETH	650	0.294118	0.469668	0	1

FIRFA	650	0.015294	0.437237	0	1
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POCO = politics connection, TOROV= tourn over, age= remuneration committee age, ETIC= remuneration committee ethnics

Source: Prepared by the researchers based on Stata outputs

4.2 Pearson's Correlation Matrix for the variables

Table 2 presents the Pearson correlation matrix for all research variables. The correlation coefficient between AGE and POLCO is highest at 0.46. This signifies the absence of multicollinearity, as it is below the 0.8 threshold suggested by Hair et al. (2014). Table 2 similarly indicates that, at the 1 percent and 5 percent significance levels, ETH, POLCO, and TOROV demonstrate a positive correlation with FIRFA. The coefficient below indicates a significant negative connection with FIRFA.

Table 2: Pearson's Correlation

	POLCO	TOROV	AGE	ETH	FIRFA
POLCO	1				
TOROV	0.145**	1			
AGE	-0.4608***	-0.2282	1		
ETH	-0.3581	-0.1159***	0.3097**	1	
FIRFA	0.0192**	0.0285**	-0.2885	-0.0537***	1

Source: Prepared by the researchers based on Stata outputs

4.3. Regression Result

Table 3: Regression

FIRFA	Coef.	Std. Err.	t	P>t
POLCO	-0.14156	0.319213	-0.44	0.000
TOROV	-0.00197	0.016724	-0.12	0.018
AGE	-0.01737	0.015248	-1.14	0.000
ETH	-0.003761	0.277416	0.01	0.989
_cons	1.123034	0.803953	1.4	0.188
Observations	650			
R ²	0.412			
Wald chi2 (8)	111.205			
Prob>chi2	0.000***			

Source: Prepared by the researchers based on Stata outputs

This study using the panel corrected standard errors (PCSE) model to analyze data from UK-listed financial firms, investigating the correlation between corporate failure and the characteristics of remuneration committees (POLCO, TOROV, AGE, and Eth). The PCSE regression results in Table 3 indicate that the explanatory factors explain for 41.2% of the variation in the dependent variable, reflected by a R² value of 0.412. The

model's goodness of fit is evidenced by the significant outcome (Wald chi-squared(8) = 111.205, $p < 0.01$). Moreover, the results shown in Table 3 indicate that POLCO is negative and statistically significant ($= -0.14156$; $p < 0.01$). Secondly, corporate failure exhibits a negative albeit insignificant correlation with ETH. Ultimately, TOROV ($B -0.00197$, $p 0.000$) and AGE ($B -0.01737$, $p 0.000$) exhibit a negative and statistically significant correlation with a firm's probability of failure.

5. Conclusion

This study examined the influence of pay committee characteristics on the FIRFA of UK financial organizations, utilizing data from the annual reports of 65 firms listed on the Bursa UK market. The research suggests that political connections, age, turnover, and ethnicity diminish the FIRFA in UK stocks. This study exclusively utilized financial firms listed on the Bursa UK website, which presents several constraints that may be rectified in subsequent research. Emerging scholars will examine the influence of pay committee attributes on the FIRFA of unlisted enterprises across diverse industry sectors. Additional potential subjects for future research encompass remediation, nationality, and individual characteristics.

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