Listed plc Remuneration Committees

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- **Matt Higgins** - Partner at FIT Remuneration Consultants LLP
Operation of Remuneration Committees

• Remuneration Committees typically have three to four members; the range is three to six independent Non-Executives

• It is common for the Chairman of the board to be a member of the Remuneration Committee

• On average, Remuneration Committees meet six times a year

• Directors generally underestimate the number of meetings that take place, when ad-hoc meetings are included

• Meetings generally last between one and a half two hours

• The average time spent on formal Remuneration Committee meetings is c. 10 hours a year – and the range can be anything from two hours to almost 20 hours

• Remuneration Committees typically set the pay of Executive Directors and those executives at the level below
Setting Pay

Pay of the Executive Directors and tier below Board (Exec Committee)

Remuneration Committee

Fees of the Chairman of the Board

Remuneration Committee

Fees of the Non-Executive Directors

Chairman of the Board/EDs

Ultimately set by:

Following input from/consideration of the views of:

NEDs sitting on the Remuneration Committee

Internal HR and Reward teams

Regulators

External independent pay consultants

Shareholders and representatives

Executive Directors

NB no Director is involved in setting their own remuneration

NB Executive Committee usually, but not always, decided on the same basis as the Executive Directors
Factors Influencing Pay

Perception of management’s influence on performance

Appetite for change

Appetite for governance compliance

Link to risk management

Link to corporate strategy

Communication – internally and externally

Link to company performance

Balancing short and long-term performance

Retaining top talent

“The Solution”
What Makes A Successful Remuneration Committee?

The basis of an effective Remuneration Committee lies in the following:

• Establishing a professional but non-adversarial relationship with the CEO

• Ensuring a good mix of backgrounds and experience on the Committee

• A supportive and independently minded HR function whose role vis-à-vis the Remuneration Committee is clear

• Effective, well-deployed external, independent, advisors

• Establishing protocols on where recommendations spring from

• An effective chair of the Remuneration Committee

• Ensuring adequate time is reserved for Committee meetings (i.e. not tagging on half an hour at the end of the day)
What Makes an Effective Remuneration Committee Chair?

The following characteristics are often associated with the effective Remuneration Committee chair:

- High emotional intelligence
- Preparation and time spent outside meetings
- Leadership and listening skills
- A good relationship with the CEO and the senior management team
- The ability to take soundings combined with toughness and resolve
- Credibility and confidence
- Experience in managing investor relations
- Experience in managing external consultants
Key success factors for a Remuneration Committee

- Establish clear roles and responsibilities for all stakeholders
- Assess the impact of your current remuneration policies
- Ensure a shared view of what you are paying for and what you should pay for
- Assess both the emotional and the rational factors
- Assess the risk inherent in your pay arrangements
- Ensure that key stakeholders have a sound technical understanding of pay (and solicit support if not)
- Avoid the danger of “copy cat” behaviour rather than innovative pay design by careful assessment of what is right for your company
- Always take a step back and consider the wider Company/sector context before determining pay awards
- Ensure you have an independent consultant with the experience and resource to advise
Key Areas of Tension

• Remuneration Committee appoints its own consultant, but management clearly need to be comfortable about the appointment

• Each member of the Board is likely to have a different risk appetite in respect of votes against in general meeting

• Incentive plan targets are normally based around the budget, but management is responsible for setting the budget

• Management will often request adjustments to incentive plan targets for unforeseen events/acquisitions/disposals

• Each shareholder will have their own views on executive remuneration, which may not align

• How much to disclose in respect of incentive plan targets (commercial sensitivity versus satisfying investors)

• Keeping the management team happy while ensuring external adverse feedback/votes against are minimised
Target Setting

- If bonus targets are based on budget, how stretching is the budget?

- If bonus targets are based on budget, how do they capture year-on-year performance (if at all)?

- Is the Committee comfortable disclosing targets (ideally prospective but at least retrospectively)?

- Can robust three year targets be set for LTIP awards?

- Do the Committee and management have a shared understanding surrounding the adjustment of targets once they have been set?

- How much goodwill does the Company have with investors in respect of Remuneration?

- Shareholders will expect maximum payouts for “exceptional” performance, target payouts for “good” performance and low levels of payouts (if at all) for “acceptable” levels of performance. What is the Committee’s past track record here?
Evolving Landscape

- Hostile environment, particularly from a political perspective
- Being played out very publicly in the press, but headlines are not always what they seem
- Increasing need to “be brave” in order to do the right thing
- Shareholders are becoming more active – e.g. starting to vote against Remuneration Committee Chairs
- Increasing influence of shareholder bodies (i.e. ISS, Glass Lewis, IA)
- Increasing reporting and disclosure requirements
- Consultation is evolving – true consultation rather than presenting a *fait accompli*
- New Corporate Governance Code, focusing on fairness (workforce pay reviews, CEO Pay Ratios) and alignment (pension)
- Expanding remit of the Remuneration Committee (Gender Pay, Executive Committee, workforce pay reviews)
Questions