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NED Network

Trends in Senior Reward and Remuneration

Meeting date: 26th March 2019

With special thanks to Lesley Knox, Remco Chair, Legal & General Group plc, Genus plc; Ian Joseph, Managing Director, Russam GMS; and Louise Fisher, Chair, Chartered Institute of Personnel and Development (CIPD).

CONTEXT

The press are putting huge scrutiny on organisations senior reward & remuneration decision, linked to the wider societal and political focus on the widening gap between rich and poor. Due to these pressures, NEDs and shareholders feel the urgent need to demonstrate that they are doing something concrete. Stakeholders have proposed changes such as reducing variable pay and bonuses, having an absolute cap on executive pay, and introduce profit share. At this meeting, attendees looked at new strategies of pushing the discussion on senior reward, the public perception around executive pay, and exchanged ideas on how to utilise new thinking around employment and pay to create more equitable workplaces.

MAKING IT PERSONAL

One of the ways where the conversation on remuneration can be made more productive and positive is to make it personal. This does not mean attacking individuals or making certain things public to the press, but about making it personal for the RemCo and the Chair, so that they have a personal stake in getting remuneration right and not just side with what the executive wants.

The Investment Association has a Public Register which lists any company that gets a significant opposition (20%) against any of their proposals. Out of the 600+ companies in the FTSE, 22% are on the register. Of those, 38% are on the list for remuneration matters. 3 companies received less than 50% in favour for its remuneration proposals, with one of them being FTSE100.

By ‘naming and shaming’, the Register might serve as a useful tool allowing NEDs to take a step backward and take a more objective view towards any remuneration matter. Some shareholders take the Register very seriously, and they take it as NEDs not listening to shareholders if the company is included in the Register for two years running.

EXECUTIVE PENSIONS

One challenging area of executive remuneration is pensions. Attendees mentioned that many CEOs might not have an idea of how much their workforce gets in pensions: many higher level management have no idea of how much their staff is paid at all. One idea is to have pensions in line with the majority of the workforce. In professional services, this may be 10-15%, and if companies are matching Government's forced enrolment then this will be down to 5%.

PERCEPTIONS AROUND PAY

In the wider societal debate about executive pay, it may be surprising to look at how members of the public perceive pay levels. Many people are in fact happy for footballers to be paid astounding amounts of money, giving the reason that their careers don't last long. Attendees noted that perceptions around pay are based more on sentiment than logic. One NED was confronted by a shareholder at their AGM, and the shareholder thought that exec pay was too much. The NED asked what should a fair amount be, and the shareholder replied £1 million. This is already at the very high end of executive pay, and goes to show that public perception has been conditioned by years of Remcos allowing senior pay going unchecked.

EQUALITY & GENDER PAY

Equality of pay and the gender pay gap have often been discussed as one single issue when they are actually not. The question is less about not paying people the same for the same job level, but the lack of inclusion in the senior leadership. Pay at this level should also not be considered in purely cash terms – for example senior women leaders may opt for more remote working and flexible working arrangements instead of bigger cash payments. This issue has also been complicated by some companies putting big earners in a separate company and thus avoiding the need to report their figures. NEDs should also consider to start looking at ethnic pay gaps.

THOUGHTS & IDEAS

- Being one of the biggest and most difficult committees to chair, NEDs are thinking of doing something swiftly to address the senior remuneration challenge. Some attendees suggested that restricted stock, although unpopular with shareholders, may be the way to go.
- Some attendees noted that swift action must be taken, otherwise the endless drip of yet another disproportionately-paid CEO in the news will be damaging for business and capitalism.
- A number of commercial businesses have used the public sector cap to supress salaries, but with the skills shortage in the UK this is not likely to continue. Another connected issue is the rate and form of employment: while there are more people working, a lot of employment growth is due to the casualisation of work and people working more flexibly. Nevertheless, this has created an upward pressure for pay. More people are more prepared to move, and many

prestigious organisations are implementing more flexible working policies to follow the trend.

- The public perception of executive pay, as mentioned above, may rest more on sentiment rather than logic. For example, while most people may be surprised hear that the CEO of the Red Cross is even paid, it should make more sense when the public realises the scope of the job and the responsibilities that the job entails.