CIPD
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Corporate governance: executive pay

Submission to the BEIS Select Committee

Chartered Institute of Personnel and Development (CIPD)

May 2018

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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has over 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Introductory comments

Our response is based on a provisional examination of those FTSE-100 firms that have so far published annual reports for their 2017 financial year and among those who put up their remuneration policies for triennial approval during this period. This analysis follows the publication of our joint report with the High Pay Centre in August 2017 *Executive pay: Review of FTSE 100 executive pay packages* which focused on annual reports for the financial year ending in 2016.

The analysis of the 2017 annual reports is expected to be published in August 2018 and we will happily share a copy with the Committee.

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Our response

What progress has been made on implementing the recommendations on executive pay by the previous Committee in its 2017 report on Corporate Governance?

1. We will take the BEIS Select Committee's recommendations and suggestions in turn:

a) making more of an effort to align bonuses with broader corporate responsibilities and company objectives and are taking steps to ensure that they are genuinely stretching

2. Analysis shows that very few FTSE-100 firms have linked either their short or long-term incentive plans to broader corporate responsibilities, most are based on the achievements of financial targets.

3. However, firms are reporting that they have been in discussions with their shareholders to try and make the measures used more stretching.

b) moving towards a simpler structure based primarily on salary plus long-term equity, to divest over a genuinely "long-term" period, normally at least five years, without large steps

4. Among those firms revising their remuneration policy, there have been reports of discussions with shareholders about simplifying the way that CEOs are rewarded, for instance, reducing the number of different incentives.

5. We have seen examples of increases in the amount of shares that CEOs must hold in their firms and LTIP timeframes being extended to 5 years.

6. As yet, we have seen no sign of a move away from long-term incentive plans towards differed stock. However, we note the recent adoption of restricted equity by Weir Group, which we hope will encourage firms and investors to reflect on their existing approach to rewarding long-term performance.

c) reducing the use of short-term performance-related cash bonuses, which should be aligned, where possible, to wider company objectives or corporate governance responsibilities

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7. We have seen little sign among our sample of a switch away from the use of short-term incentives, if there have been changes it has been in the lowering of the maximum awards payable. Few have introduced wider non-financial objectives.

d) using clearer criteria for bonuses, which are stretching and be aimed to provide incentives rather than just reward

8. We have come across examples of firms that claim to have introduced clearer and more stretching criteria, whether they are remains to be seen.

e) appointing employee representatives to the remuneration committee

9. To date, we have no employers among our sample of FTSE 100 firms that have appointed an employee representative to their remuneration committee

f) setting out clearly their people policy, including the rationale for the employment model used, their overall approach to investing in and rewarding employees at all levels throughout the company, as well as reporting clearly on remuneration levels on a consistent basis

10. Few remuneration committee reports refer to the contribution of the whole workforce in the success of their organisation and how this success is shared with them.

g) publishing CEO pay ratio between senior executive and all UK employees

11. Eight employers have reported on their CEO pay ratio. However, how they have done so differs, with some reporting on all of their workers and some using just their UK staff as the basis, some use the mean, others the median. It should be noted that no regulations have so far been published about what firms should publish and how.

What improvements have been made to reporting on executive pay in the last 12 months?

12. From a people perspective, we would have liked to see more of an acknowledgement of the role of the workforce in the success of the organisation, often the reports suggest that it is largely down to a few individuals at the top who

should be rewarded accordingly. Our report due to be published next month *Hidden Figures: How Workforce data is missing from corporate reports* reveals that many big firms are still failing to capture and disclose key workforce data. This means the assessment of company success is partial at best, resulting in executive reward decisions based on only an incomplete picture of what is making the firm tick.

13. We acknowledge the improvement brought about by the public register established by the Investment Association that lists publicly available information regarding meetings of companies in the FTSE All-Share who have received significant shareholder opposition to proposed resolutions or have withdrawn a resolution prior to the shareholder vote. This should help give a better understand the processes used by those firms to identify and address the concerns of shareholders.

What steps have been taken by Remuneration Committees and institutional investors to combat excessive executive pay in the last 12 months?

14. There have been a few public examples of investors voting against the annual remuneration reports, such as Unilever, Inmarsat, Ocado and Pendragon. However, most of the pressure is behind the scenes with remuneration committees engaging with investors before the vote in order to head off any concerns.

15. Among those FTSE 100 firms that have published their 2017 reports, the 10 largest falls in CEO pay ranges between 34% and 75%. By contrast, the 10 largest increases range from 91% to 2,117%.

What further measures should be considered?

16. We would like the remuneration committee report to talk more widely about how the efforts of rest of their organisation's workforce are being rewarded and recognised and how this compares to the remuneration of the CEO.

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