New Remuneration Principles

parc
PERFORMANCE & REWARD CENTRE

New remuneration principles, developed for 'building and reinforcing long-term business success', were recently issued by Hermes Equity Ownership Services, the National Association of Pension Funds, the BT Pension Scheme, Railpen Investments and USS Investment Management.

There are four principles, as follows, which are explained in a paper available from the organisations websites[1]:

1. Management should make a material long-term investment in shares of the business they manage
2. Pay should be aligned to long-term success and the desired corporate culture throughout the organisation
3. Pay schemes should be simple, understandable for both investors and executives, and ensure that rewards reflect long-term returns to shareholders
4. Remuneration committees should fully explain and justify how their decisions operate to deliver long-term business success.

The paper develops several of the themes heard at our November 2012 meeting where David Paterson of the NAPF and Crawford Gillies of Standard Life provided their personal perspectives on the outlook for executive reward.

One of the insights from the meeting was the degree of high-level consensus that may be emerging between institutional investors and experienced remuneration committee chairs. There was a noticeable overlap in views around holding shares for longer, tailoring plans to the company, simplification, and the need for greater discretion and trust. Each of these themes is present in the newly issued paper.

Our September meeting on long-term incentives included two case study examples, ABF and HSBC. Together these provide good examples of the longer retention of shares, tailoring to the company strategy, simplification, and the use of discretion and building of trust.

Trust itself may reduce the requirement for multiple consultations with investors and enable non-executive directors to exercise greater judgement in reward decisions. As well as explaining their decisions, remuneration Committees will need to show robustness in evaluating performance.

Our meeting indicated that the time is right for companies to consider change. Yet some may be reluctant to be first movers and may need to overcome the perceived barriers and risks – however, through their paper, a significant group of investors is signalling the direction that they favour.

As remuneration committees, HR directors and heads of reward wrestle with this, executive reward is likely to remain an important issue for the coming year. Our 2013 programme therefore considers executive pay from various perspectives including progressing change, managing communications and defining performance.

1 *'Remuneration principles for building and reinforcing long-term business success'* available from the NAPF and other websites: http://www.napf.co.uk/PressCentre/NAPFbuzz/0345_Major_pension_funds_and_investors_lead_rethink_on_boardroom_pay.aspx