

## Remuneration Committee Research 2011

### OUTLINE INTERVIEW FORMAT

Questions are in three groups

1. Personal and remuneration committee details
2. Remuneration Committees and how they work
3. Views on current executive remuneration structures and levels

#### 1 Personal and remuneration committee details

**A Could we confirm our understanding that you are currently a member of the following Remuneration Committees (list)?**

And, of these, are currently chair on (list)?

And in terms of previous Remuneration Committee experience?

- You held past membership of (list), any other committees?
- Being an executive or Chairman in attendance
- Government review bodies include (list) – any others?

Do you have any specific remuneration professional knowledge?

#### **B Remuneration Committee remit**

What accountability do you have for remuneration across the whole company?

How many executives are subject to individual sign off of policy and practice?

How many executives and senior managers are subject to general oversight by the remuneration committee?

Any changes in the past three years?

#### **C Remuneration Committee process**

The Remuneration Committee at company-x (your focal company) was reported as meeting n-times last year, was that a typical frequency?

Is there a formal annual timetable?

Approximately how long are meetings?

Any changes in the past three years?

## **D Remuneration Committee membership**

The Remuneration Committee at company-x was reported as comprising the following y-people (list – check still valid)

- What determines who is selected to serve on the Remuneration Committee?
- What *skill base* do they possess and is that important?

When and under what circumstances are there meetings held without the CEO and other executives present?

What role do the company's HR and other staff play in the process?

It appears that the Chairman is/is not a member of the committee. What decided this?

Any changes in the past three years?

## **E The DRR reports that the Remuneration Committee has the following formal outside advisors (list). Are there any others?**

Are the outside advisors:

1. Advisors to management?
2. Advisors to management and the committee?
3. Advisors to the committee only?
4. Advisors to the committee only with other advisors to management?

Discuss with the interviewee their views on advisory independence – is it important?

## **2. Remuneration Committees and how they work**

### **A Model of decision making**

#### **(i)**

In looking at how remuneration **design decisions** are made (e.g. shape of package, types of plan, measures selected) what best describes the process at the remuneration committee:

- Management propose and remuneration committee reviews and decides?
- Advisors propose and remuneration committee reviews and decides with input from management?
- Management and advisors work together and management or advisors will propose and remuneration committee reviews and decides?
- Remuneration chairman and advisors propose and remuneration committee decides?
- Depends on the issue (please explain)?
- Other?

What promotes or inhibits good decision making in this area?

In your experience, which of the above process types produces the best outcome in terms of **design**?

#### **(ii)**

Is the process significantly different when the remuneration committee is considering incentive **calibration** or the setting of overall pay **quantum**? If so, how?

How do you set targets for incentive plans?

- Linked to plan or budget in a relatively mechanistic way
- Calibration reviewed and set each year
- Linked to shareholder consensus
- Other

In looking at overall **quantum** and quantum of each remuneration element:

- Do you normally refer to market data each year?
- If so how is this provided to the committee and by whom?

#### **(iii)**

To what extent does the Remuneration Committee seek legitimacy for its decisions by being sensitive to the actions of remuneration committees in other significant companies?

## **B Tracking pay and performance**

What audit is performed of performance versus targets for short- and long-term incentives (either mid-year/cycle or after the end of the year/ cycle)?

Does the Remuneration Committee exercise its discretion in relation to annual bonus plan and long term incentive plan payouts (for example if there is no formulaic payment and it is decided to make an award, or there is an unexpected 'over payment')? What motivated the exercise of this discretion?

To what extent is the value of previously awarded (but as yet unvested) incentives taken into account in making this year's executive pay decisions?

What account is taken of total realised reward in any period (roughly, salary, pension contribution, achieved annual bonus, and value of vested incentive shares) when deciding on the design and quantum of this year's remuneration?

## **C Governance**

How would describe your overall approach to shareholders regarding executive remuneration reporting?

- *Who drafted the remuneration report*
- *Did you have meetings with key investors prior to AGM*

How would you describe your last contacts with institutional shareholders in relation to executive remuneration changes?

## **D What makes a successful remuneration committee?**

## **E What makes a successful remuneration committee chair?**

### **3. Remuneration Structures and Levels**

**A Does pay drive behaviour in your view? How?**

**B When you have made/envisage significant change in executive pay arrangements, what are the main drivers?**

**C What recognition of risk is there in the remuneration committee process/the executive package?**

**D What in your view is the appropriate way to link pay to performance? How sensitive should pay be to performance?**

**E Has the climate in the last two years change the way you view executive remuneration policy and practice?**

e.g. more concerned regarding public opinion, controlling base increase to aligned with other employees, setting more stretching targets, deferring remuneration, introduction of clawback

**F Do you have any views as to whether the level of executive remuneration is too high relative to other employees?**