

# **Monitoring of Corporate Governance Aspects of Directors' Remuneration**

The Greenbury Report on directors' remuneration (July 1995) recommended a Code of Best Practice based on the fundamental principles of accountability, transparency, and linkage of rewards to performance. The Combined Code on Corporate Governance, which was published in June 1998, set out principles of good governance and code provisions which drew heavily on the Greenbury recommendations in relation to directors' remuneration.

The Department of Trade and Industry appointed PricewaterhouseCoopers in May 1999 to monitor compliance by listed companies with the best practice framework on directors' remuneration set out in the Greenbury Code of Best Practice and the Combined Code.

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**PricewaterhouseCoopers was responsible for collating the data given in this report and it has been presented in the exact form in which it was sent to the DTI. Any questions or comments in relation thereto should be directed to Moira Conoley, Partner, Global Human Resource Solutions, on 0171 212 3319.**

The data set out in this report has been extracted from annual reports and accounts in respect of companies in the FTSE All-Share Index for financial periods ended between 26 December 1998 and 31 March 1999, and from notices of annual general meetings held in respect of those financial periods.

The data (which excludes investment trust companies) covers the following numbers of companies from the population outlined above:

<b>Data</b>	<b>No. of companies</b>
Remuneration report, long-term incentive schemes and other aspects of remuneration policy	270
Proxy votes on resolutions	38
Remuneration committees, contracts of employment	298
Disclosure of remuneration policy in respect of:	
Short-term incentive schemes	279
Long-term incentive schemes	294

## **(i) REMUNERATION REPORT: COMPANIES SEEKING SHAREHOLDER APPROVAL**

The Greenbury Report recommended that the remuneration committee should consider each year whether the circumstances are such that the annual general meeting should be invited to approve the policy set out in the report. The Greenbury Group suggested that a remuneration committee might think it right to seek explicit backing from shareholders if, for example, a company wishes to change radically its remuneration policies, or if its policies in this area have attracted controversy.

### **Company Name**

BRITISH TELECOMMUNICATIONS PLC

GARBAN PLC

GKN PLC

PREMIER OIL PLC

SCOTTISH MEDIA GROUP PLC

UNITED NEWS & MEDIA PLC

WASSALL PLC

**TOTAL: 7 companies out of 270 (3%)**

## (ii) DISCLOSURE OF LINKAGE TO PERFORMANCE

The Greenbury Report recommended that the section of the remuneration committee's report on general remuneration policy should set out the company's policy on major issues such as "how performance is measured, how rewards are related to it, how the performance measures relate to longer-term company objectives and how the company has performed over time relative to comparator companies.

This survey has been carried out by reference only to incentive schemes.

The data is separated into that pertaining to short-term incentive schemes and that pertaining to long-term incentive schemes as the two types of scheme are generally dealt with separately in the remuneration report.

279 companies disclosed the existence of short-term incentive schemes and 294 disclosed the existence of long-term incentive schemes (both out of 298).

			<i>Number of companies disclosing in broad terms in text</i>	<i>Number of companies disclosing in absolute terms ie numerically</i>	<i>Number of companies not disclosing at all</i>
<b>REMUNERATION REPORT PURPORTS TO SHOW HOW PERFORMANCE IS MEASURED:</b>	SHORT TERM:	No. %	<b>206</b> <b>74%</b>	<b>5</b> <b>2%</b>	<b>68</b> <b>24%</b>
	LONG TERM:	No. %	<b>169</b> <b>57%</b>	<b>61</b> <b>21%</b>	<b>64</b> <b>22%</b>
<b>REMUNERATION REPORT PURPORTS TO SHOW HOW REWARDS ARE RELATED TO PERFORMANCE</b>	SHORT TERM	No. %	<b>114</b> <b>41%</b>	<b>19</b> <b>7%</b>	<b>146</b> <b>52%</b>
	LONG TERM	No. %	<b>47</b> <b>35%</b>	<b>79</b> <b>60%</b>	<b>7</b> <b>5%</b>
<b>NO OF COMPANIES DISCLOSING HOW REWARDS ARE RELATED TO PERFORMANCE</b>	SHORT TERM	No. %	<b>108</b> <b>37%</b>	<b>51</b> <b>17%</b>	<b>135</b> <b>46%</b>
	LONG TERM	No. %	<b>88</b> <b>55%</b>	<b>60</b> <b>38%</b>	<b>11</b> <b>7%</b>

	<i>Number of companies disclosing in broad terms in text</i>	<i>Number of companies disclosing in absolute terms ie numerically</i>	<i>Number of companies disclosing graphically</i>	<i>Number of companies not disclosing at all</i>
<b>REMUNERATION REPORT PURPORTS TO SHOW HOW PERFORMANCE MEASURES RELATE TO LONG-TERM COMPANY OBJECTIVES</b>	<b>15</b> 5%	<b>0</b> 0%	<b>0</b> 0%	<b>283</b> 95%
<b>REMUNERATION REPORT PURPORTS TO SHOW HOW COMPANY HAS PERFORMED OVER TIME RELATIVE TO COMPANIES IN SAME SECTOR:</b>	<b>2</b> 1%	<b>6</b> 2%	<b>1</b> 0%	<b>289</b> 97%
<b>REMUNERATION REPORT PURPORTS TO SHOW HOW THE COMPANY HAS PERFORMED OVER TIME RELATIVE TO A WELL-KNOWN STOCK MARKET INDEX</b>	<b>5</b> 2%	<b>7</b> 2%	<b>0</b> 0%	<b>286</b> 96%

### **(iii) REMUNERATION COMMITTEES**

The Combined Code states that “Remuneration Committees should consist exclusively of non-executive directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.”

#### **(a) COMPANIES WHOSE NON-INDEPENDENT\* NON-EXECUTIVE DIRECTORS COMPRISE A MAJORITY OF THE MEMBERS OF THE REMUNERATION COMMITTEE**

TOTAL: 17 companies out of 298 (6%)

#### **(b) COMPANIES WHOSE BOARD CHAIRMAN CHAIRS THE REMUNERATION COMMITTEE**

TOTAL: 81 Companies out of 298 (27%)  
(9 full-time and 72 with part-time chairmen)

#### **(c) COMPANIES WITH EXECUTIVE DIRECTORS ON THE REMUNERATION COMMITTEE**

TOTAL: 10 companies out of 298 (3%)

**\* Definition of non-independent Non-Executive Director used for these purposes:**

The Non-Executive Director is non-independent if any of the following apply:

The individual is an ex-employee of the company, another company in the group or a predecessor company;

He or she works for an advisor of the company;

He or she has been on the Board for more than nine years;

Any other material relationship or contract between the Non-Executive Director and the company is disclosed; or

The individual is disclosed as a non-independent Non-Executive Director.

**(iv) LONG-TERM INCENTIVE SCHEMES: PERFORMANCE CRITERIA**

The Greenbury Report recommended that, “In considering what the performance criteria should be, remuneration committees should consider criteria which measure company performance relative to a group of comparator companies in some variable, or set of variables, reflecting the company’s objectives such as shareholder return.....Directors should not be rewarded for increases in share prices or other indicators which reflect general price inflation, general movements in the stock market, movements in a particular sector of the market or the development of regulatory regimes.”

<b>Performance measure</b>	<b>Number compared with comparator group of companies</b>	<b>Number compared with Retail Price Index</b>
Earnings Per Share	3	7
Other	6	5
Return On Capital Employed	0	1
Share Price	2	1
Total Shareholder Return	3	0
<b>TOTAL:</b>	<b>14</b>	<b>14</b>

**(v) DIRECTORS' CONTRACTS OF EMPLOYMENT: CONTRACTS OF EXECUTIVE DIRECTORS STANDING FOR RE-ELECTION**

The Combined Code states that “There is a strong case for setting notice or contract periods at, or reducing them to, one year or less. Boards should set this as an objective, but they should recognise that it may not be possible to achieve it immediately.”

	<b>One year or less</b>	<b>More than one year but less than or equal to two years</b>	<b>More than two years</b>	<b>TOTAL</b>
<b>Number of contracts</b>	299	196	2	497
<b>%</b>	60	39	1	100