Remuneration committees and the wider workforce – a new perspective
Preparing for change – a practical guide
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In recent months the UK has seen the implementation of a package of corporate governance reforms announced by the Government in August 2017, designed to maintain the UK’s reputation for being ‘dependable and confident place in which to do business’. Under the reforms, which seek to make companies more transparent and accountable to their employees and shareholders, the role of the remuneration committee is set to change. Remuneration committees will be required to go further to demonstrate that executive pay outcomes are fair and reasonable, and that they “take seriously enough their existing obligations to take account of wider workforce pay and conditions in setting executive remuneration”.

Now more than ever, politicians, investors and the public expect remuneration committees to understand their workforce – how it is comprised, rewarded, and incentivised. Quoted companies with more than 250 UK employees will be required to publish and explain the pay ratio of the chief executive to the median, lower quartile and upper quartile UK employees, and directors will be required to explain how success sharing opportunities such as all-employee share plans are promoted through the organisation.

At the same time, the Financial Reporting Council (‘FRC’) has published a new UK Corporate Governance Code, to apply for accounting periods beginning on or after 1 January 2019. This includes some far-reaching changes and extends the remit of the remuneration committee to include the review of workforce remuneration and related policies, and the alignment of incentives and reward with culture.

So what does this mean for the remuneration committee agenda, and how can companies best prepare for change? In our view, over the coming months remuneration committees and HR teams must review their annual cycle, considering how relevant workforce data and context can be presented to remuneration committees in a comprehensive but practical way.

This guide is intended to provide a high-level ‘dashboard’ illustration to help remuneration committees in navigating the new reforms – to ask the right questions and ensure that decisions on executive pay are made through a broader lens.

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1 Government Green Paper August 2017

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