

Board Remuneration Disclosure in Europe

Have We Reached Effective Communication?

Survey shows progress in remuneration communication.

Reading the 2011 remuneration reports of corporations from Europe's largest economies shows that good progress has been made in achieving greater transparency of board remuneration pay and practices over the past several years. A study carried out by HR ValueCurve covered more than 70 top companies in the United Kingdom and continental Europe.

Reporting practices still vary significantly across economies. Contributing factors are likely to be differences in:

- **National regulations and standards** — mandatory versus voluntary information
- **Shareholding structures** — particularly the presence and weight of institutional investors
- **Business scope** — global/regional versus national market players
- **Board member characteristics** — particularly international exposure.

The study showed that leading practices are not limited to corporations in one or two countries but can be found across Europe.

Good reporting does not start with the remuneration report itself but with catering for different audiences' tastes and preferences via a well-planned website. This includes

providing easy access to the information itself and also choice as to the preferred way of delivery and format.

It is clear that many of the reports reviewed still focus primarily on compliance. Financial services institutions now provide extensive information on:

- How risk is reflected in their remuneration design
- The number and remuneration structure of risk-taker positions (which, without safeguards, could expose the company)
- The application of bonus guarantees, deferrals and clawback terms.

Again, the primary focus is compliance and this is quite understandable given the national and international regulatory activity and evolving interpretations financial institutions have had to keep pace with. Requirements for this sector, and particularly for banks, are the most stringent and therefore especially demanding for those drafting remuneration reports.

Some other sectors appear a step ahead in effective communication. While recognizing the need to report all the required information in a factual way, according to the author, a few companies appear to have attempted

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to make this rather complex subject even somewhat entertaining.

The study focused on the following qualitative criteria:

- Ease of website navigation
- Delivery vehicles and formats
- Structure and flow
- Completeness of report
- Comprehensiveness of information
- Transparency of information
- Simplicity/comprehension.

As could probably be expected, no company in the study achieved top scores in all categories. However, many companies fared well in two or three. In the study, particular attention is given to:

- Completeness — for obvious compliance reasons
- Transparency, although both breadth and depth still vary significantly
- Comprehension, for example through more frequent use of graphics or less formal language.

Looking across Europe, do certain practices stand out by country, sector or individual company?

It is actually all three. Some examples:

1 | Countries

- **France:** use of technology to make reports more interactive and interesting
- **Germany, Italy, Switzerland:** highly factual, mostly text, some graphics

- **UK:** good mix of texts and visualizations, more context and storytelling.

2 | Sectors

- **Banking:** extensive coverage on how risk is reflected in performance targets and remuneration policies
- **Pharma and tobacco:** strong effort to effectively communicate with stakeholders rather than just report what is legally required.

3 | Companies

- One company that partnered with the regulator to set a new reporting benchmark.
- So what are the practices differentiating the best from the good during the 2011 remuneration reporting season? The report identifies a range of best practices for each of the following areas, with two examples shown for each area:

■ General

- Less than one minute to access remuneration report on company website
- The remuneration report includes a table of contents.

■ Governance

- Reference to applicable regulations and standards with any deviations explained
- Consideration of risk in goal-setting and remuneration design.

- Strategy, framework, policy and practices

- Link between business strategy and reward strategy/structure
 - Extent of use of outside consultants and how their independence is assured.
- Level of remuneration
 - Direct and total remuneration for different past and potential future performance scenarios
 - Underlying assumptions for projected pension benefits.
 - Other provisions
 - Actual number and value of shares held
 - Expiry dates for service contracts.

Conclusion

So, have we reached effective communication? Based on the analysis, practices are certainly heading in the right direction. Global markets, the expectations of large investors and other key stakeholders, as well as international regulations, are influencing the pace of change in remuneration reporting.

With a new set of shareholder powers and disclosure regulations imminent in the UK, and with further European Union regulation pending in financial services, continuing efforts will no doubt be needed in remuneration design and effective communication before stakeholders are sufficiently comfortable to move on to other topics again. **WS**

Editor's note The full analysis/report is available for order from the HR ValueCurve website (www.hrvaluecurve.com) or by writing to info@hrvaluecurve.com.

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