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# De Toekomst van Bestuurders Beloningen

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# Recent developments in shareholder demands on executive remuneration

**PHASE 1**  
 Stronger focus on performance and measurability

**2010-2017**

*“Executives are paid overgenerous, Supervisory boards are too lenient”*

- Cap on total remuneration
- Stricter requirements for which companies can be included in benchmark
- Short term and long-term incentives
- Malus and claw back provisions
- Limitations on sign on bonuses and severance pay (no golden parachutes)
- Shareholding requirements
- No discretion
- SMART goals
- Transparency on goals (also amounts)

# Phase 1 Example: checklist ISS



## Overview of the remuneration policies and practices

### EUROPEAN MARKET STANDARDS

#### Disclosure

There should be adequate disclosure on the company's policies and practices in relation to the remuneration of executives and directors. Yes

#### Executive remuneration

Any short-term compensation component should include a maximum award limit. Yes

Performance metrics attached to the short-term compensation component should be disclosed. Yes

The compensation policy should notably avoid guaranteed or discretionary compensation. Yes

Executives should not be entitled to termination benefits in excess of 24 months' pay. Yes

#### Dilution

Aggregate number of shares and options issued under all employee and executive incentive schemes should not exceed 5 percent of issued capital for mature companies, or 10 percent in the case of high-growth companies. Yes

#### Vesting schedule

Vesting of long-term incentive grants must not occur less than three years from date of grant. Yes

#### Performance criteria

Awards under the equity-based incentive plan are tied to performance measures. Yes

Performance metrics attached to the long-term compensation component should be disclosed. Yes

If applicable, performance targets should provide incentives based on materially improved company performance. Yes

#### Non-executive director remuneration

Non-executive directors should not receive options, or similarly structured equity-based compensation. Yes

#### Remuneration committee

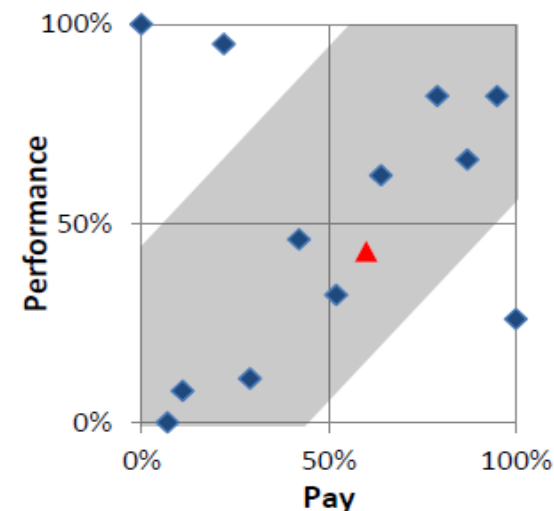
No executive director, including the CEO, should be a member of the remuneration committee. Yes

#### Other

The remuneration report provides no other controversial issues or matters of concern in deviation of ISS' Global Principles on Executive Compensation, local corporate governance practices, or other elements that would not be aligned with shareholders' long-term interests. Yes

## RELATIVE ALIGNMENT

The chart plots percentiles of the annualized 3-year performance and pay rankings for the company (▲) and ISS' derived peers (◆). The gray bar indicates pay and performance alignment.



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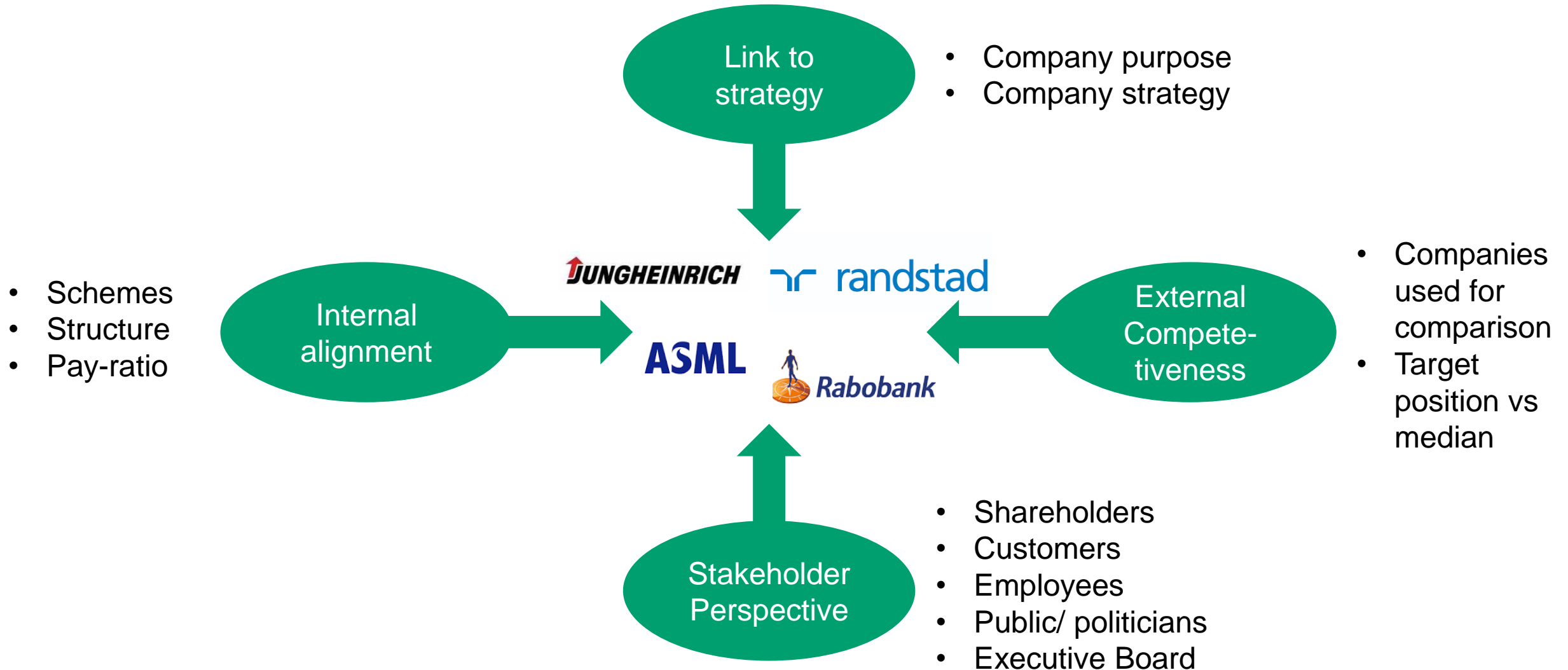
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**2017-**

*“Companies pay too much attention to the short term and shareholder interests”*

- Remuneration should be clearly linked to strategy
- Stronger voice of employee, attention for gap between executive and employee remuneration
- Inclusion of non-financial (ESG) goals
- Supervisory board interacts/listens to all stakeholders (shareholders, employees, customers, society, EB)
- Consideration of new remuneration models: fixed salary plus shareholding (Norges)?
- Larger vote shareholders in approval remuneration policy and report

# Phase 2: Holistic approach remuneration policy



# Key dilemma's "phase 2" remuneration system



- Which key performance indicators to choose?:
  - Meaningful and strategic “non-financial” kpi’s? Relative importance?
  - Number of kpi’s?
- How to set credible long-term targets in an increasingly volatile world (throwing darts)?
- How do you balance the different perspectives? What if a company is not doing well financially, but scores high on the non-financial (ESG) targets?
- Do you reward the performance of the company or the performance of the management?
- What if the “mechanistic outcome” of the remuneration system does not reflect the true performance?

# Discussion thesis



“Phase 2” remuneration systems and detailed shareholder checklists/prescriptions don’t go together, they should be replaced by a more holistic assessment and a true dialogue between board and shareholder (advisor)”