NEXT GENERATION BOARDS:
The RemCo Chair

INTRODUCTION

In the current macroeconomic and geopolitical environment for business, executive leadership teams and their boards face extraordinary challenges. A combination of accelerating rates of change, often driven by disruptive new technologies, threats of disintermediation and the emergence of new market entrants, combined with declining or unevenly distributed growth, means that many of the threats they now face are new and unprecedented.

In that context, Savannah Group's Next Generation Leadership Institute (NGLI) is examining how non-executive board roles are evolving, and what knowledge, skills and experience non-executive directors of the future will need to be equipped with. Our research involves a series of Next Generation Board Lunches with senior executives and current non-executive directors to debate the increasing challenges facing leaders at board level and the skills and experience required to address those issues in the future.

IN **2023**, SAVANNAH SET UP A THINK TANK, **THE NEXT GENERATION LEADERSHIP INSTITUTE** (NGLI), WITH A PRE-EMINENT EXTERNAL ADVISORY BOARD. THE NGLI CONDUCTS **RESEARCH** AND FACILITATES **DEBATE** THROUGH EVENTS ON THE PREVALENT BUSINESS CHALLENGES AND THE CONSEQUENT REQUIREMENTS FOR **LEADERSHIP IDENTIFICATION AND EVALUATION**

THE CHANGING BUSINESS LANDSCAPE

For boards, the volatile, uncertain, complex and ambiguous (VUCA) macro-economic environment has profound consequences. The changing business landscape has increased both their workload and their 'issue load'. The importance of the environmental, social and governance (ESG) agenda is transforming the dimensions of board leadership, while the rise of stakeholder capitalism means boards are responsible to communities and the environment, not just their shareholders, clients and employees. Issues such as corporate purpose, culture and staff wellbeing have risen up boardroom priority lists. The complexity of these responsibilities increases the need for outward-facing leadership and diversity in board composition.

THE ROLE OF RemCo CHAIR HAS BEEN ESPECIALLY AFFECTED BY THESE CHANGES.

Prior to the 2008 economic crisis, the RemCo chair's remit was often relatively narrow and primarily involved setting the salaries of the CEO and CFO. But the fast-evolving business context has led the Financial Reporting Council (FRC) to consult on changes to the UK Corporate Governance Code, with remuneration identified as a key issue. The FRC is proposing amendments to the code that will provide greater transparency and ensure that directors' pay is linked to a company's performance, purpose and values, including its ESG objectives.

As a consequence, RemCo chairs have never faced so much scrutiny and in the current business climate there is a higher level of interest in remuneration than ever before. Every January, news outlets mark "Fat Cat Day", highlighting the early moment in the year when the pay of FTSE100 CEOs outstrips the annual earnings of the average British worker, and other media campaigns have sought to drive a wedge between executive leaders and their workforce.

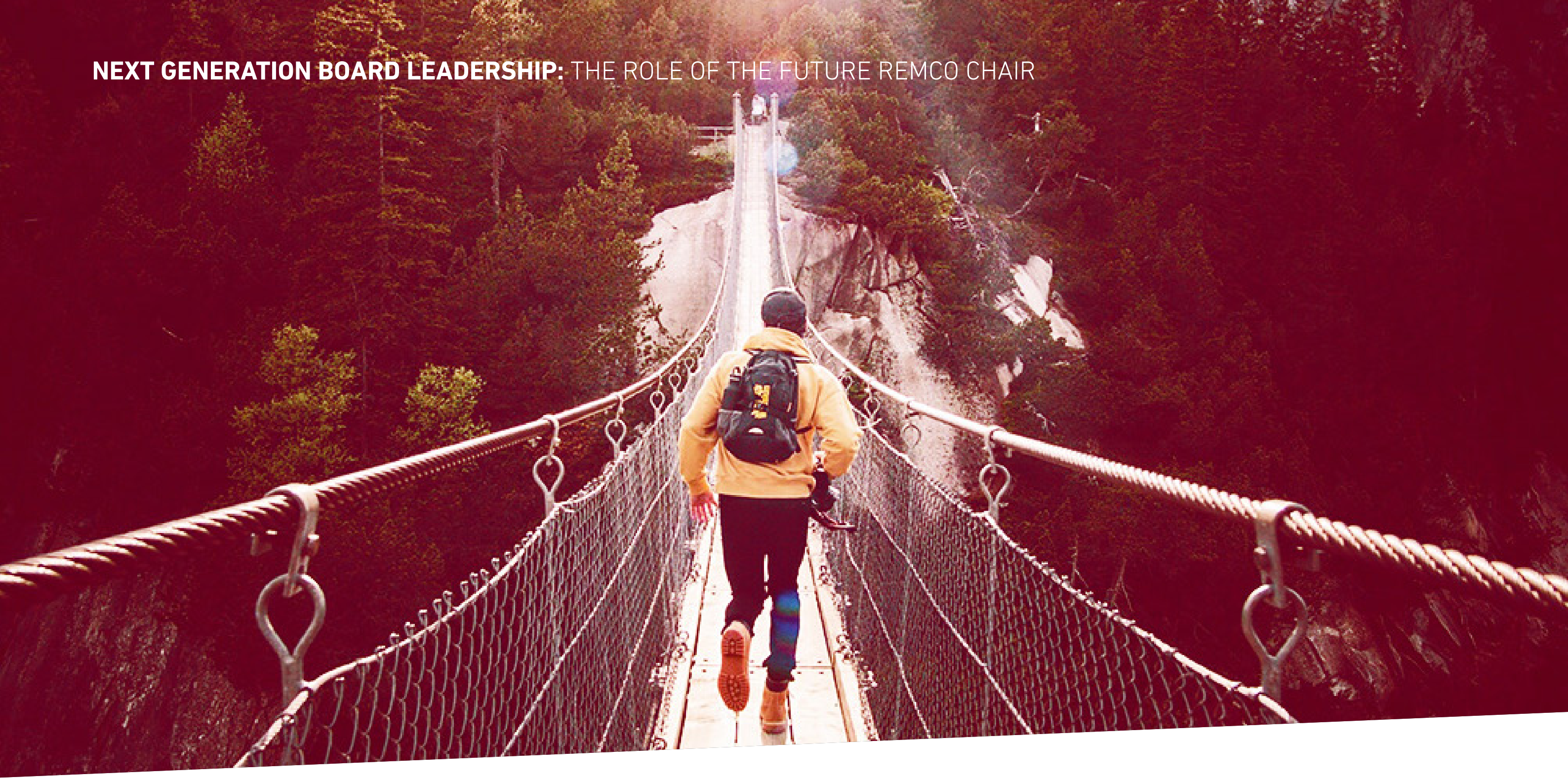
Listed businesses are therefore under unprecedented pressure over remuneration, with activist investors able to exert far more power than a decade ago and institutional investors demanding increasingly high levels of scrutiny. Proxy agencies have, for better or worse, grown in influence and are advising investors as to how they should vote on everything from executive remuneration to the CEO's pension, ESG, diversity and gender balance on the board.

In this climate of heightened investor activism, the traditional RemCo target of 80% shareholder approval for the directors' remuneration report has become increasingly hard to reach. For some RemCos, 60 has become the new 80.

Today's RemCo chairs must also contend with growing levels of governance as boards come under increasing regulatory oversight. With companies being held to account by investors like never before over governance guidelines (such as the five-point rule limiting non-executive roles), many RemCo chairs have had to work hard to keep their CEOs from being drawn to better-paid and less-regulated positions elsewhere.

The importance and sensitivity of remuneration is demonstrated by Savannah's analysis of the annual reports of a sample of FTSE100 companies. The study found that companies dedicated an average of 26 pages of their annual report to directors' remuneration. By comparison, only an average of five pages were allocated to the company's strategic priorities.

THE TRADITIONAL RemCo TARGET OF **80%** SHAREHOLDER APPROVAL FOR THE DIRECTORS' REMUNERATION REPORT HAS BECOME INCREASINGLY **HARD TO REACH**.



THE SCOPE OF THEIR ROLE WILL CONTINUE TO CHANGE.

Future RemCo chairs will need to adapt to the uncertainty of fluctuating economic and social conditions. The scope of their role will continue to change as boards adapt to deal with new and evolving issues.

As a consequence, companies are having to rethink how they identify and recruit a RemCo Chair with the necessary experience to take on such a fast-evolving role. They are prioritising diversity in its broadest sense, choosing candidates with breadth of background, skillset, and experience of working in different sectors and scales of business, from global corporates to small-scale start-ups.

Savannah's study of FTSE100 companies found that historically a high proportion of RemCo chairs arrived from a career in finance (45%), and significant numbers had backgrounds in human resources (18%) or commercial (18%) positions.

SAVANNAH'S STUDY OF FTSE100 COMPANIES FOUND THAT HISTORICALLY A HIGH PROPORTION OF REMCO CHAIRS ARRIVED FROM A CAREER IN FINANCE **(45%)**

But the dominance of finance might recede with the need for diversity. General management experience has become a valuable asset for a RemCo chair. So too are commercial knowledge and expertise in relationship building.

The soft skills of emotional intelligence and good stakeholder management will be key qualities of the RemCo chair of the future. During 'remuneration season', when directors' pay is being set, RemCo chairs must conduct a military campaign of stakeholder meetings to make their case, talking in turn to institutional shareholders, analysts, key executives and proxy agencies.

PERSONAL QUALITIES WILL BE EQUALLY IMPORTANT

A CPO or Group HR director who is financially literate and has good commercial skills will be ideally placed to inherit the RemCo chair role. Some CPOs have already prepared their paths to becoming future RemCo chairs by acquiring experience in general management or taking responsibilities in key areas such as sustainability, transformation and IT.

Personal qualities will be equally important. Future RemCo chairs must have the courage to hold frank conversations with their CEO and a resilient streak in managing their key relationships. The RemCo chair should not be friends with the CEO but must be able to maintain healthy relations with all members of the board.

NOW, MORE THAN EVER, IT TAKES A **SPECIAL KIND OF PERSON** TO CHAIR THE REMUNERATION COMMITTEE EFFECTIVELY.

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