ECGS
Expert Corporate
Governance Service

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Directors' Pay 2011: An international comparison

Executive remuneration packages should reward fairly good corporate performance with remuneration geared to the achievement of stretching targets that do not encourage imprudent risk-taking, excessive conservatism or continuation of strategies that are no longer appropriate. The remuneration structure should balance the legitimate interests of the director with the potential cost to shareholders.

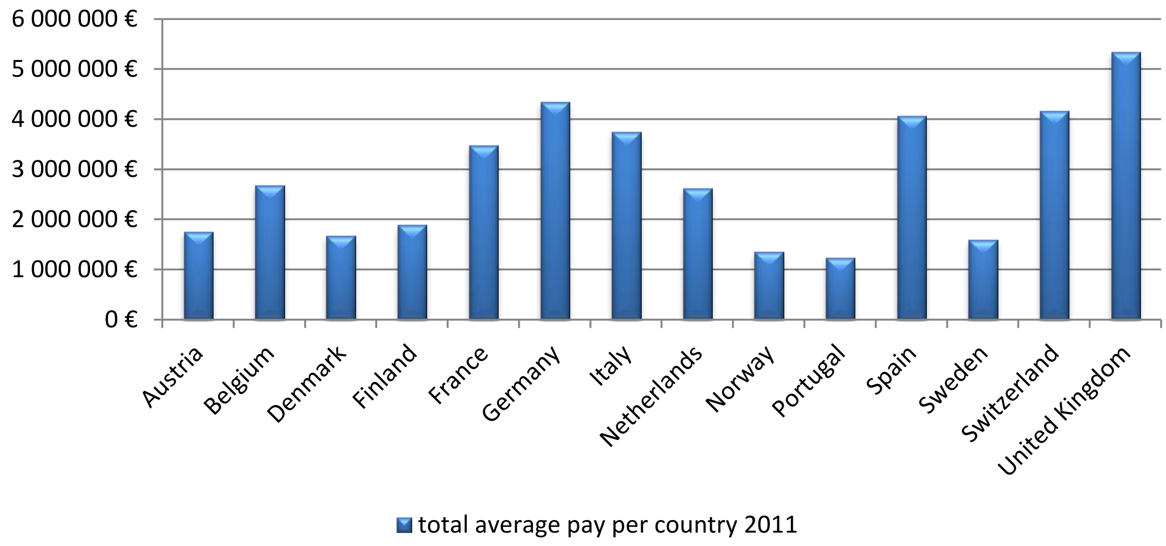
Are these principles followed by remuneration committees across Europe? ECGS (Expert Corporate Governance Service) studied the remuneration of the CEOs of 392 companies and took a close look at the remuneration structures across Europe.

Methodology

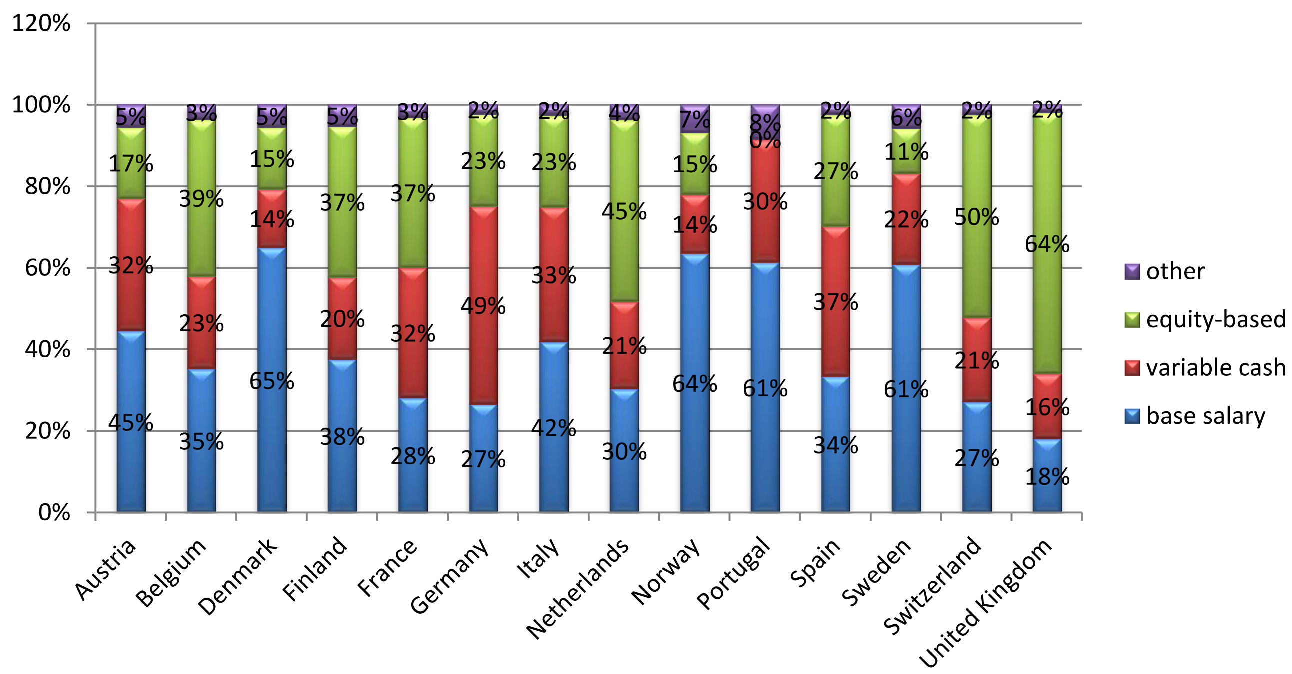
ECGS surveyed the following compensation components of CEO's across Europe: Base salary, variable cash bonus and equity-based incentives. Valuation of equity-based incentives is very complex. The ECGS survey in general based the valuation of equity incentives that have been awarded during the financial year, on the fair value at grant date provided by the company. However, due to different levels of information available in the various European markets valuation methods cannot be constantly applied throughout all markets. When shares or options awards are linked to significantly challenging performance conditions, ECGS can restate the valuation to take into account a lower vesting probability.

Cross-border view on directors' pay 2011

Compared to other European countries on the continent, CEOs pay in Germany nowadays appears more than competitive. With a total average remuneration in 2011 of 4.3m EUR, German CEO's were better paid than all other European countries, except for the UK. Although the average total compensation of the German CEOs is only 77% of the remuneration of their British colleagues, they are paid 252% more than their colleagues in Portugal and still 25% more than their French colleagues. The average total earnings of the CEOs covered in the study were 3.7m EUR.



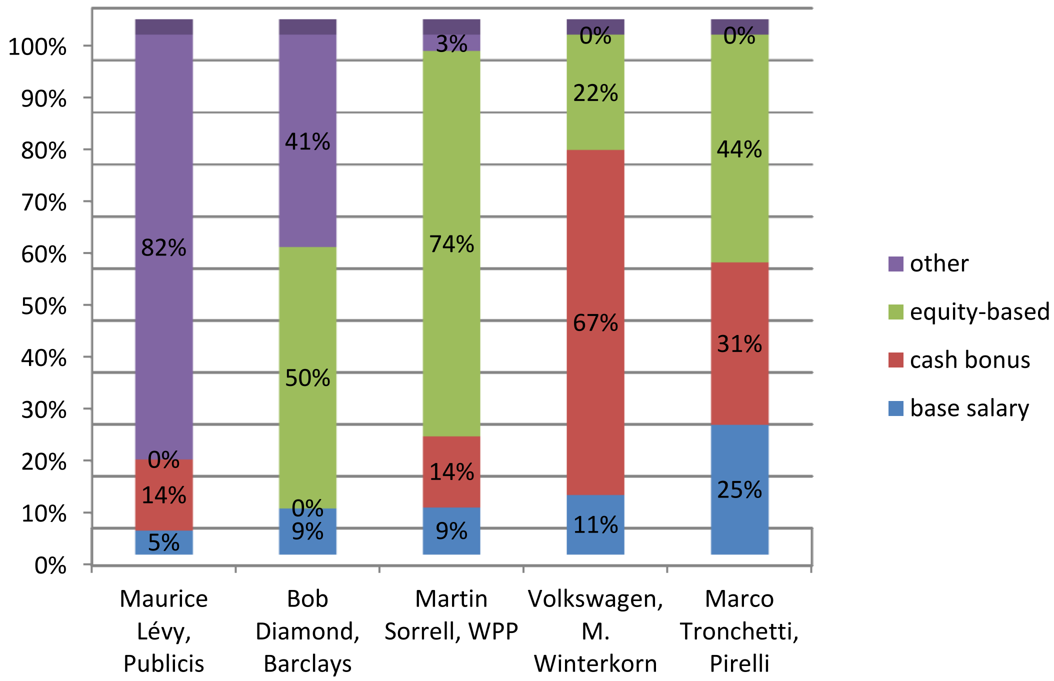
Comparing the structure of the CEO pay across Europe, the study shows that pay composition varies significantly across Europe: Whereby in Germany variable cash payments prevail, countries like the UK or Switzerland pay a predominant part of the CEO's compensation in equity-based incentives.



The variable cash part of the German CEO's average remuneration amounts to 2.1m EUR. This is more than double the average European figure (1m EUR).

Highest paid CEOs across Europe

Highest paid CEO, among the 392 companies covered in the ECGS survey, is Maurice Lévy, chief executive of Publicis. His first rank in this European survey is mainly explained by his entitlement to the extraordinary 16m EUR deferred compensation granted by the supervisory board in 2003 as a retention package which has always been questioned by ECGS due to the high amount and the late disclosure and approval by the general meeting.

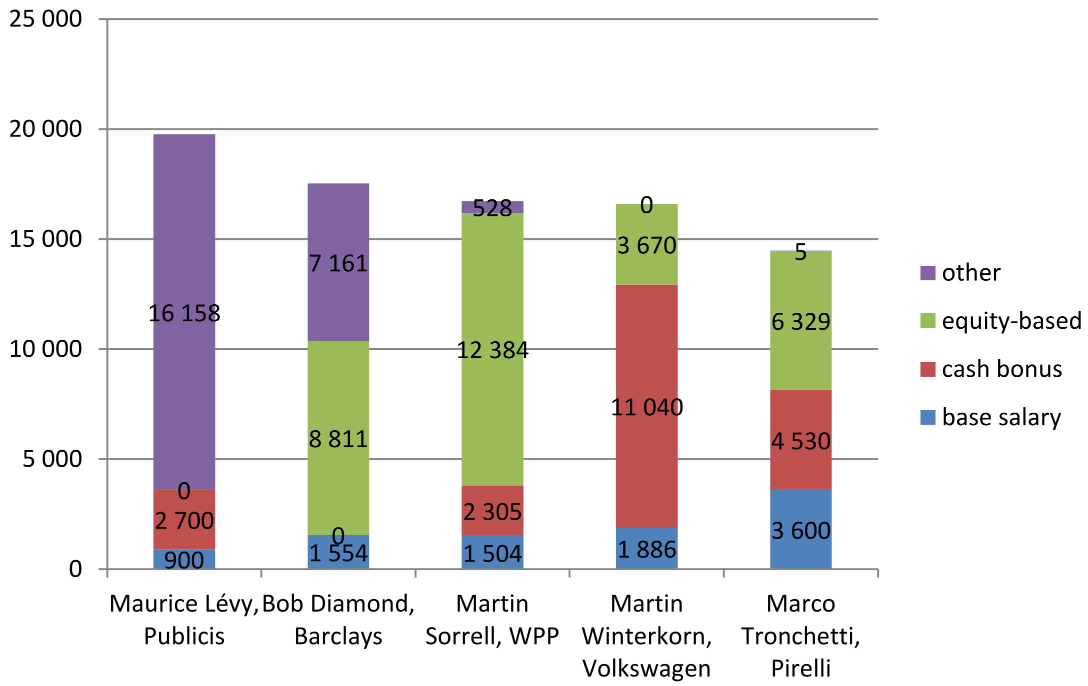


Second best paid European CEO was Bob Diamond from Barclays. His total remuneration for 2011 amounted to more than 17.5m EUR, half of this amount paid in equity-based components. Included in his pay package, a tax-equalisation payment amounting to more than 6m EUR is worth to be mentioned.

The 3rd highest paid CEO is Martin Sorrell, chief executive of WPP who earned a total amount of 16.7m EUR in 2011. His pay package was dominated by equity-based compensation which accounted for 74 percent of his total remuneration 2011, while 14 percent of his remuneration was made of a variable cash payment and only 9 percent was paid in fixed components. The high level of equity-based compensation results from the company's long-term incentive plan which provides for a potential maximum amount of 23.6m GBP in shares (valuation based on the share price at grant date).

Sir Martin Sorell is closely followed by Martin Winterkorn from Volkswagen whose pay package also exceeded the 16m EUR border in 2011.

Marco Tronchetti, chairman, CEO and controlling shareholder of Pirelli, is by far the highest paid chief executive in Italy in 2011 with 14.5m EUR. While Pirelli disclosure should be clearer, Pirelli shareholders are informed that Mr Tronchetti is partly paid by the subsidiary Pirelli Tyres, by a LTIP and participates to a generous co-investment plan which tends to inflate the normal bonus.



Say on Pay

ECGS supports that companies increasingly follow international best practice that a Say on (executives') Pay be given regularly to shareholders at the general meeting of the company. Broadly speaking ECGS requests, that the company's policy statements on the managing directors' remuneration should include a description and explanation for all elements of pay, a justification for the choice of performance criteria and the level of targets, a description of how the remuneration strategy fits with overall corporate strategy and key performance indicators. The company should also discuss the relationship between directors' remuneration and employee remuneration levels. Factors specific to the company should be emphasised rather than relying on a general market rationale. More specifically, ECGS considers that the total variable remuneration should not exceed 300% of the salary and that at least half of it should be linked to long-term performance. Therefore, the maximum annual short term bonus should not exceed 150% of the salary.

On this basis, in 2012, 88 percent of all remuneration proposals received an opposing recommendation from ECGS, including three of the five TOP paying companies, namely Barclays, WPP and Pirelli. At the Volkswagen AGM 2012, there was not such proposal but ECGS recommended not to discharge the members of the Chairman's committee. In France, there is no Say On Pay, however the French partner of ECGS recommended to oppose the re-election of Publicis chairwoman and questioned the Board during the AGM.

Author:

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