

3.8 Board Committees – Remuneration Committee

Role of the Remuneration Committee

- Advise the Board on the remuneration policies for the Managing Director/ Chief Executive, the Chairperson, Executive Directors, the Company Secretary and the members of the Management Team it is designated to consider

Responsibilities of the Remuneration Committee

- Determine and agree with the Board the framework or broad policy for the remuneration of the Managing Director/ Chief Executive, the Chairperson, Executive Directors, the Company Secretary and other members of the Management Team it is required to consider
- The Remuneration of Non Executive Directors shall be a matter for the Chairperson and the Executive Members of the Board (see B2.3 of the Combined Code (2003))
- Produce an annual report on the agreed remuneration policy
- Determine the total individual remuneration package of each Executive Director
- Review the suitability of performance measurement criteria for members of the Management Team
- Review the notice periods for Executive Director employment contracts
- Determine compensation arrangements for early termination of employment contracts
- Review company organisational changes
- Administer share option scheme(s) for members of the Management Team and/or Directors

Insights and practical suggestions

- No Director or Manager should be involved in any decisions relating to his or her remuneration
- The Remuneration Committee should have written Terms of Reference drawn up by the Board that provide a clear understanding of its role (see Appendix A4 for Sample Terms of Reference)
- Remuneration Committee membership should, in listed companies, consist of at least three (or in the case of smaller companies, two) independent Non Executive Directors of the Board, each of whom shall be appointed by the Board

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- The Remuneration Committee Chairperson is appointed by the Board and should be an independent Non Executive Director (the Chairperson of the Board is not eligible for this position under the Combined Code 2003, but in smaller companies may perform the role)
- The Chairperson of the Remuneration Committee should attend the AGM
- The Remuneration Committee should meet at least once a year
- The Remuneration Committee should consult the Chairperson of the Board and/or Managing Director/ Chief Executive about remuneration proposals for Executive Directors

10 Questions to help improve the effectiveness of the Remuneration Committee:

- 1 How independent are the Directors on the Remuneration Committee? Aside from their independence from the company, do they have any personal, business, or boardroom links with the Managing Director/ Chief Executive?
- 2 What performance measures do the company's pay incentives actually reward (ROI, share price appreciation, earnings, etc)? What other measures were considered, and why were the ones used by the Remuneration Committee selected?
- 3 If you graph Managing Director/ Chief Executive rewards along with your chosen measures of corporate results over the past few years, do they closely follow one another? If not, why not?
- 4 What is the average yearly time commitment required for service on the Remuneration Committee? Do you feel able to manage all the pay issues in the time available?
- 5 Does the Remuneration Committee have the authority and budget to hire outside consulting resources of its own?
- 6 Has the Remuneration Committee set share ownership targets for top managers (or for the Board itself)?
- 7 For start-ups or businesses in sectors with tight labour markets, how can the company's pay policies specifically target talent retention?
- 8 How fully does the Remuneration Committee review pay and incentive packages for members of the Management Team?
- 9 Are there 'unconventional' perks that could be offered to the Managing Director/ Chief Executive or other executives that might cost less overall but prove more valued?
- 10 Have you considered update or training programmes on Remuneration issues for the Remuneration Committee? Who could provide such training?