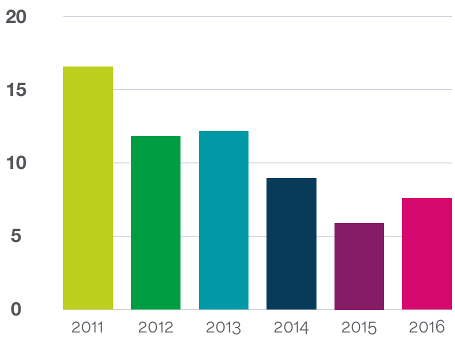
RETENTION INDEX

JULY 2017

HM Thinking

Tax follows reward as FTSE 100 bows to pressure

FTSE 100 Group Head of Reward appointments 2011-2016



It has a difficult few years for big business - as if the economic environment has not been challenging enough, it has also had to deal with mistrust from society at large and ever increasing scrunity. There are two issues that do most to stir this mistrust - CEO pay and corporation tax - and in trying to shore up thei image on both issues, there has been an extraordinary surge in FTSE 100 (and FTSE 250) appointments of Heads of Reward and Heads of Tax.

Pressure for change - first reward, now tax

Public discontent over bosses' pay led five years ago to the 'shareholder spring' and a shake up at the top of the reward function.

Between 2011 and 2013 there were 41 Group Head of Reward appointments in the FTSE 100. Demand for Heads of Reward has now returned to more normal levels, but the reward market provides some useful insights into how the tax market will play out over the next few years.

Demand for Heads of Tax is now following a similar path with a dramatic increase in FTSE 100 appointments over the past two years - 15 in 2015, nine last year and the trend continuing into 2017 with four appointments made and one search out in the market at the mid-point.

Similar skill sets

The similarities between reward and tax go beyond the surge in appointments, into the skillsets sought.

Traditionally, both tax and reward directions were technical subject matter experts - in tax, the skill set was geared towards achieving the lowest possible tax rate, but now the role is about achieving the 'appropriate' tax rate. It is an increasingly compliance based role.

Like reward before it, the Head of Tax is now more rounded executive, capable of boad-based commercial judgment and the communication skills to be credible in front of a Board committee.

Different cost benefits

Whilst the reward resulted in a dramatic increase in compensation for Reward Directors, somewhat counterintuitively the tax surge has resulted in the opposite. The trend in tax is moving towards replacing a cohort reaching retirement with appointees with less experience, but playing to this more varied skillset.

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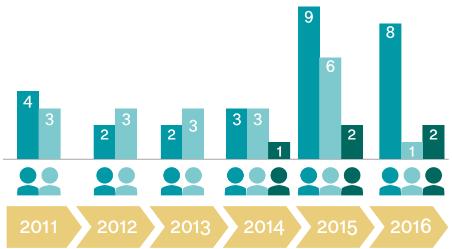
FTSE 100 Group Tax Officier appointments 2011-2016

External Candidates
Internal Candidates
Candidates from Professional Services



Of the nine appointments made in 2016, six had no prior experience as Head of Tax. Change is being driven by the unique opportunity to appointment individuals better suited to the changing demands of the top job and also potentially to appoint a more cost effective candidate.

More to come

The shakeup at the top of the tax function has further to run before it settles into the pattern of the reward function. However, there's also potential for a wider impact.

Today, because executive pay is the issue that just won't go away, the most common readon for HRDs to fail in the role is because of breakdown in confidence over their handling of a rewadr issue. Five years ago it was sufficient for a Group HRD to make up for any knowledge gaps in reward with the support of a reward director - now the HRD must have a high-level of knowledge themselves.

Will tax follow a similar pattern? The CFO role is broader than that of HRD and the CFO is much more likely to lose their job on the back of a profit warning. However, like executive pay, corporation tax is a recurring issue and the CFP who is not on top of their tax agenda may find that the attention turns to them.

Hedley May – Functional Excellence

Hedley May is focused on senior appointments across corporate functions, covering the critical roles which ensure the smooth running of your business.

To find out more, please contact Verity Walker, Eleanor Sutton or Karen Frizzell on +44 (0)207 858 9444.